Annual Report 2019

NORDIC FIBREBOARD AS

Annual report 2019
(translation of the Estonian original)

Beginning of the financial year:	1.01.2019
End of the financial year:	31.12.2019
Business name:	Nordic Fibreboard AS (former Skano Group AS)
Registry code:	11421437
Address:	Suur-Jõe 48, Pärnu 80042, Estonia
Phone:	+372 44 78 323
E-mail:	group@nordicfibreboard.com
Homepage:	www.nordicfibreboard.com
Auditor:	AS PricewaterhouseCoopers
Main activity:	Production and sales of fibreboards and furniture

CONTENTS

INTRODUCTION

THE GROUP IN BRIEF

Nordic Fibreboard AS (with previous name Skano Group AS) main activity is production and sale of building materials and furniture, retail trade of furniture and household furnishing. On 05.09.2019 Nordic Fibreboard AS sold its subsidiary Skano Furniture Factory OÜ, thereby ending its production and wholesale of furniture. Nordic Fibreboard AS became the direct mother company of Skano Furniture OÜ after the sale of the Skano Furniture Factory OÜ.

Nordic Fibreboard AS is a holding company with subsidiaries Nordic Fibreboard Ltd OÜ (with previous name Skano Fibreboard OÜ), Pärnu Riverside Development OÜ and Skano Furniture OÜ, herewith in turn Nordic Fibreboard Ltd OÜ owns a subsidiary Suomen Tuulileijona OY. Skano Furniture OÜ owns two retail furniture shop subsidiaries Skano SIA and Skano LT UAB, which both ended their operations in September 2019. Skano SIA were deregistered on 27.11.2019 while Skano LT UAB remains as a dormant company.

Nordic Fibreboard Ltd OÜ OÜ produces and distributes softboard products for use in many different applications, the main categories being within construction (insulation, soundproofing, and interior finishing panels for walls and ceilings) and industry (packaging, door cores, expansion joint filler, pin and notice boards, acoustic reduction, cake boards, firelighters). Suomen Tuulileijona OY is the marketing company of Nordic's fibreboard products in Finland.

Skano Furniture Factory OÜ produced original, premium price level home furniture made of timber. Skano Furniture OÜ consists of a furniture retail store chain operating in Estonia, Latvia and Lithuania.

Pärnu Riverside Development OÜ was established by the demerger of Skano Furniture Factory OÜ on 24.04.2019, during which Pärnu Riverside Development OÜ became the owner of real estate and its buildings in Suur-Jõe street 48 Pärnu city and the company`s area of activity is the management of such real estate and buildings.

The principal markets of the company are all Nordic countries, Russia, Portugal and the Baltics. Nordic Fibreboard's customers and partners are well recognized parties within their field of expertise, and value long-term relations with Nordic Fibreboard.

From 5 June 1997, Nordic Fibreboard AS is listed on the Tallinn Stock Exchange. On 19 September 2007, the division of Nordic Fibreboard AS took place and the shares of the manufacturing entity that was spun off were relisted in the Main List of the Tallinn Stock Exchange pursuant to the resolution of the Listing Committee of the Tallinn Stock Exchange on 20 September 2007 and trading the shares of Nordic Fibreboard AS was launched on 25 September 2007. In September 2013, a restructuring process of Nordic Fibreboard AS was conducted, where current fibreboard and furniture factory divisions were transferred to newly established subsidiaries Nordic Fibreboard Ltd OÜ and Skano Furniture Factory OÜ. On 2nd of April 2018 Nordic Fibreboard shares trading was moved on Tallinn Stock Exchange from primary list to secondary list.

MANAGEMENT REPORT

OVERVIEW OF OPERATING RESULTS

REVENUE AND OPERATING RESULTS

Nordic Fibreboard recorded positive EBITDA of € 325 thousand for full year 2019 from continuing operations (vs positive € 428 thousand in 2018 from continuing operations). 2019 full year EBITDA includes one-off profit € 327 thousand from revaluation of investment property, whereas 2018 EBITDA included one-off expenses of increase provision reserves by € 25 thousand. Fibreboard profitability was substantially reduced due to the higher cost of its main raw material, woodchips and to leakages in one of its driers, which resulted in substantial higher consumption of energy during fourth quarter. Furniture retail EBITDA became even more negative compared to the closure of stores.

Net loss for full-year 2019 was € 1 127 thousand from continuing operations (2018: loss of € 360 thousand from continuing operations). Consolidated net sales for 2019 were € 13.33 million from continuing operations, being a 6% increase compared to 2018 (2018: € 12.53 million from continuing operations).

Fibreboard activities showed sales of € 11.75 million in 2019, this being 7% sales increase from previous year, when sales was € 11.01 million, due to securing new customers in display board and door core segments. We recorded sales increase in emerging markets in Asia and Africa while also continuing sales growth in EU due to securing new customers. Finland, our largest market, continued to experience sales decline despite Nordic Fibreboard keeping its market share within soft density fibreboard segment, thus reflecting the growth of other materials for use in the construction sector, mainly in new build of apartment.

Prior to the sale on 5 September 2019 of our furniture wholesale company Skano Furniture Factory, sales in this unit were € 1.22 million, compared to the full year 2018 sales of € 2.27 million. This report considers the wholesale of furniture as a discontinued operations.

Furniture retail sales decreased by 1% compared to 2018 (from € 1.54 million to € 1.52 million). Sales dropped because Pärnu mnt salon in Tallinn, Tartu, Riga and Vilnius stores were closed in the second half of 2019. Furniture retail for 2019 were therefore negative EBITDA € 200 thousand (2018 result was negative EBITDA of € 104 thousand).

GROUP'S REVENUE BY ACTIVITY

	€ thousand		*% of net sales*	
	2019	**2018**	**2019**	**2018**
Continued operations				
Fibreboards production and sales	11,745	11,007	81%	74%
Furniture retail	1,515	1,536	10%	10%
Real Estate Management	111	0	1%	0%
Group transactions	(38)	(15)	(0%)	(0%)
Total	**13,333**	**12,528**	**92%**	**85%**
Discontinued operations	1,215	2,270	8%	15%
TOTAL	**14,548**	**14,797**	**100%**	**100%**

GROUP'S REVENUE BY REGIONS

	€ thousand		*% of net sales*	
thousand €	**2019**	**2018**	**2019**	**2018**
European Union	10,244	9,820	70%	67%
Russia	1,545	1,531	11%	10%
Asia	544	294	4%	2%
Africa	523	168	4%	1%
Other	245	403	2%	3%
Middle East	232	312	1%	2%
TOTAL	**13,333**	**12,528**	**92%**	**85%**
Discontinued operations	1,215	2,270	8%	15%
TOTAL	**14,548**	**14,797**	**100%**	**100%**

The Group's total sales have seen increases in some markets, such as European Union, Asia and Africa, while we recorded substantial sales decline in Middle East.

THE GROUP'S PROFIT/LOSS BY SEGMENTS

€ thousand	**2019**	**2018**
Continued operations		
EBITDA by business units:		
Fibreboards production and sales	68	280
Furniture retail	(200)	(104)
Real Estate Management	352	0
Group transactions	105	252
TOTAL EBITDA	**325**	**428**
Depreciation	(668)	(558)
TOTAL OPERATING PROFIT/ LOSS	**(343)**	**(130)**
Net financial costs	(784)	(228)
Income tax	0	(2)
NET PROFIT/ LOSS	**(1,127)**	**(360)**
Discontinued operations	(271)	(532)
TOTAL	**(1,398)**	**(891)**

STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

As of 31.12.2019 the total assets of Nordic Fibreboard AS were € 9.1 million (31.12.2018: € 10.3 million). The liabilities of the company as of 31.12.2019 were € 7.5 million (31.12.2018: € 7.4 million), of which Nordic Fibreboard has borrowings of € 4.6 million as at 31.12.2019 (31.12.2018: € 4.8 million).

Receivables and prepayments amounted to € 1.4 million as at 31.12.2019 (31.12.2018: € 1.1 million). Inventories were € 0.9 million as of 31.12.2019 (31.12.2018: € 2.3 million). Financial investments (ie Trigon Property Development shares) decreased from € 422 thousand as at 31.12.2018 to € 397 thousand as at 31.12.2019. Real Estate Investments were € 1.12 million (31.12.2018: € 0.18 million), property, plant, equipment and intangibles were € 5.2 million as of 31.12.2019 (€ 6.3 million as of 31.12.2018).

In 2019, the Group's cash flows from operating activities totalled € 516 thousand € (2018: € 507 thousand). Investment activities resulted in cash outflows in amount of € 153 thousand in 2019, compared to outflows in amount € 275 thousand in 2018. Financing activities also resulted in cash outflows of € 410 thousand in 2019 (2018: € outflow 252 thousand). Net cash effect in 2019 € was negative 47 thousand, which is more negative compared to the 2018 outflows of € 20 thousand.

In 2019, investments in non-current assets totalled € 133 thousand. In 2018, the investments totalled € 270 thousand.

PERFORMANCE OF BUSINESS UNITS

NORDIC FIBREBOARD LTD

Fibreboard sales for 2019 were € 11.75 million, which is 7% more than in 2018 (2018: € 11.01 million). We sold our products to customers in 39 countries during the year 2019. Sales growth in the EU were mainly driven by securing new customers in both the display board and the door core segments. Sales to Russia showed a modest increase in 2019, reflecting the slight increase in business confidence and business activity in that market. Middle East markets continue to experience subdued economic environment. In Asia we secured new customers in new countries, and in Africa we benefitted from a loss of a key competitor. Fibreboard recorded EBITDA of € 68 thousand for full year 2019 (2018: € 280 thousand), the reduced profitability in 2019 compared to 2018 were due to extra start-up costs being incurred as a result of working with new products for customers in the door core and display board segment, as well as the aforementioned increase in energy costs due to leakage in one of our driers.

THE SALES OF NORDIC FIBREBOARD LTD BY REGION

	€ thousand		*% of net sales*	
	2019	**2018**	**2019**	**2018**
European Union	8,656	8,297	74%	75%
Russia	1,545	1,531	13%	14%
Asia	544	294	5%	3%
Africa	523	168	4%	2%
Middle East	232	312	2%	3%
Other	245	404	2%	4%
Total	**11,745**	**11,007**	**100%**	**100%**

INTERIOR FINISHING BOARDS

Interior finishing boards are 100% produced under Isotex brand. Interior finishing boards are made of natural softboard, which is produced in Pärnu fibreboard factory's main production line and the boards have milled tenons and the surface is covered with paper or textile. This technology enables to produce boards of different colours and patterns.

GENERAL CONSTRUCTION BOARDS

Wind-protection boards and boards for door cores are the largest product groups at Pärnu softboard factory. The main product group of Püssi fibreboard factory is boards for the pin board segment, which Nordic Fibreboard sells across several continents.

SKANO FURNITURE FACTORY: FURNITURE PRODUCTION AND WHOLESALE

On 05.09.2019 Nordic Fibreboard AS sold its subsidiary Skano Furniture Factory OÜ, thereby ending its production and wholesale of furniture. Nordic Fibreboard AS became the mother direct company of Skano Furniture OÜ after the sale of the Skano Furniture Factory OÜ. The main activity of Skano

Furniture OÜ is retail of own products and furniture of third-party furniture in the Baltics. Skano Furniture Factory business activity was producing and wholesale of handmade furniture of solid wood. Skano Furniture Factory factory was located in Pärnu.

Prior to the sale on 5 September 2019 of our furniture wholesale company Skano Furniture Factory, sales in this unit were with intra-group transactions € 1.07 million, compared to the full 2018 sales of € 3.01 million. EBITDA for 2018 until 05.09.2019, was negative € 176 thousand (negative € 334 thousand for full-year 2018).

THE SALES OF THE FURNITURE FACTORY BY COUNTRY

	€ thousand		*% of net sales*	
	2019	**2018**	**2019**	**2018**
Russia	627	1,217	36%	40%
Finland	335	798	20%	27%
Skano Retail	476	733	28%	24%
Other countries	265	258	16%	9%
Total	**1,703**	**3,006**	**100%**	**100%**

SKANO FURNITURE: RETAIL SALES

Retail business was operated by a subsidiary Skano Furniture OÜ and its subsidiaries in Latvia and Lithuania. As of 31.12.2019 there were two stores left, one store in Tallinn and one store in Pärnu, both stores were closed 31.01.2020. Latvian and Lithuanian stores were closed 30.09.2019. The closure of these stores meant that the group was leaving the furniture retail sector.

Furniture retail sales 2019 decreased by 1% compared to 2018 (from € 1.54 million to € 1.52 million).

RETAIL SALES BY COUNTRY

	€ thousand		*% of net sales*		*Number of stores*	
	2019	**2018**	**2018**	**2017**	**31.12.2019**	**31.12.2018**
Estonia	1,152	962	76%	63%	2	4
Latvia*	137	272	9%	18%	0	1
Lithuania*	226	302	15%	20%	0	1
Total	**1,515**	**1,536**	**100%**	**100%**	**2**	**6**

* *Latvian and Lithuanian stores were closed on 30.09.2019.*

Total Furniture operations EBITDA for 2019 was negative € 200 thousand (in 2018 negative € 104 thousand).

FORECAST AND DEVELOPMENT

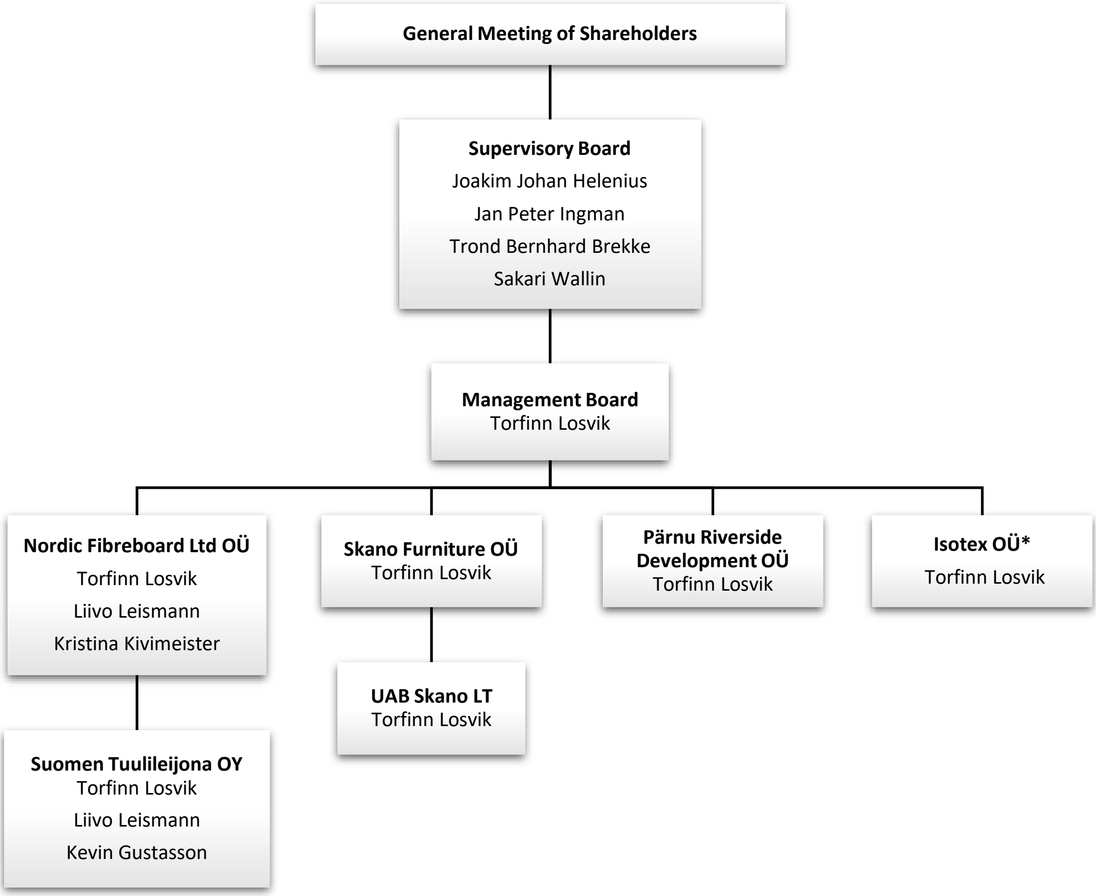
NORDIC FIBREBOARD LTD

In Fibreboard, we are pushing for sales of our various applications which have more global reach than our traditional sales of windboards and insulation boards sold mainly in our traditional markets of Finland, Russia and Estonia. The industrial segment offers more potential as customers are becoming more conscious of using environmentally friendly materials, such as our fibreboards. We see further upside potential in sales growth of display boards, especially in the dynamic Asian market.

PÄRNU RIVERSIDE DEVELOPMENT

We will continue to manage and develop the property on Suur-Jõe Street 48, Pärnu.

ELECTION AND POWERS OF MANAGEMENT BODIES AND PERSONNEL



** There is no economic activity in the company*

THE GENERAL MEETING OF SHAREHOLDERS

The General Meeting is the highest directing body of the Company. Annual General Meeting shall be called within six months after the end of the financial year at the latest at the company's registered place of business. An extraordinary General Meeting shall be called if it is required by law.

The General Meeting of Nordic Fibreboard AS for 2020 will be held on 10 August 2020 in the Company's head office in Pärnu.

SUPERVISORY BOARD

The Supervisory Board plans the Company's (i.e. Nordic Fibreboard concern) activities, organises its management, supervises the activities of the Management Board and adopts resolutions in matters provided by law or the Articles of Association. According to the Articles of Association, the Supervisory Board consists of between three and seven members. Members of the Supervisory Board are elected by the General Meeting for a term of five years. The Supervisory Board of Nordic Fibreboard AS has four members. As at the balance sheet date, the Supervisory Board was comprised of the chairman of the Supervisory Board Joakim Johan Helenius and members of the Supervisory Board Trond Bernhard Brekke, Jan Peter Ingman and Sakari Wallin.

INFORMATION ABOUT MEMBERS OF THE SUPERVISORY BOARD

Joakim Johan Helenius (re-elected into office until 18.09.2022), member of the Supervisory Board since 1999. Joakim Johan Helenius was born in 27.11.1957 in Finland and he obtained a degree from Cambridge University in England. He is also member of the Supervisory Board of AS Trigon Property Development, member of the Management Board of the Company's majority shareholder Pärnu Holdings OÜ, Chairman of the Management Board of AS Trigon Capital. Joakim Johan Helenius owns 20 000 Nordic Fibreboard shares.

Trond Bernhard Brekke (elected into office until 18.09.2022), member of the Supervisory Board since 2017. Trond Bernhard Brekke was born in 26.06.1951 in Norway and he obtained bachelor's degree from University de Grenoble in France and University of Denver in Colorado. Trond Bernhard Brekke holds Managing Director's position in Bernhd. Brekke AS. Trond Bernhard Brekke is a Chairman and member of board in several companies. Since 1999 Trond Bernhard Brekke is an Honorary Consul of Estonia. Trond Bernhard Brekke does not own any shares in Nordic Fibreboard AS.

Jan Peter Ingman (elected into office until 18.09.2022), member of the Supervisory Board since 2017. Peter Ingman was born in 23.03.1967 in Finland. He has a Master of Science degree in technology from Helsinki University of Technology (now a part of Aalto University). Jan Peter Ingman is a main shareholder and Board member in Ingman Group. He also holds Board and Supervisory Board memberships in a wide variety of other companies. Jan Peter Ingman does not own any shares in Nordic Fibreboard AS.

Sakari Wallin (elected into office until 15.11.2023), member of the Supervisory Board since 2018. Sakari Wallin was born in 03.05.1954 in Finland and he obtained bachelor's degree in Engineering from Polytechnik Turku. Sakari Wallin holds Managing Director's position in Finnish Fibreboard LTD. Sakari Wallin is Chairman of the Board of Finnish Fibreboard (UK) Ltd and Managing director of Finnish Fibreboard Filial Sverige. Sakari Wallin does not own any shares in Nordic Fibreboard AS.

MANAGEMENT BOARD

The powers of the Management Board of the Company are provided in the Commercial Code and are limited as established in the Company' Articles of Association. The members of the Management Board have no powers to issue shares. Members of the Management Board are appointed by the Company's Supervisory Board for three years. Members of the Management Board are appointed and recalled by simple majority voting of the Supervisory Board.

There are no agreements between Nordic Fibreboard AS and members of the Management Board as provided in Chapter 19 of the Securities Market Act. In accordance with the Articles of Association, the Management Board consists of up to seven members. As at the end of the financial year and at the approval of this annual report, the Management Board of Nordic Fibreboard AS has one member, Torfinn Losvik.

PERSONNEL

In 2019, the average number of employees in the Group from continuing operations was 125 (2018: 129). At the end of the financial year, the Group employed 126 employees of which 102 workers and 24s specialists and executives (2018: number of employees from continuing operations was 129, of which 105 workers and 24 specialists and executives). The average age of the Group's employees was

49 years (2018: 49). At the time of sale of the subsidiary on 05.09.2019, Skano Furniture Factory OÜ had 56 employees.

In 2019, employee wages and salaries with all applicable taxes totalled € 2.5 million from continuing operations (2018: € 2.3 million from continuing operations). In 2019, payments made to management and supervisory board members of all group companies including all subsidiaries with relevant taxes were € 173 thousand (€ 187 thousand in 2018).

THE DISTRIBUTION OF THE NUMBER OF EMPLOYEES OF THE GROUP BY UNIT (AS AT 31.12.2019):

	2019	2018	Change
Nordic Fibreboard Ltd OÜ	120	116	3%
Skano Furniture OÜ	6	13	(54%)
Total Group	**126**	**129**	**(2%)**
Discontinued operations	0	87	(100%)
Total Group	**126**	**216**	(42%)

The Group is one of the largest employers in both Pärnu and in Püssi, and therefore has positive social impact on local employment.

AUDIT COMMITTEE

The Audit Committee is a body advising the Supervisory Board in the area of accounting, auditing control, risk management, internal control and internal auditing, performance of supervision and budgeting and the legality of the activities of the Supervisory Board. Audit Committee has two members and as at balance sheet date includes Rando Tomingas and Kristi Aarmaa.

ELECTION OF THE AUDITOR

In 2017, the Management Board, in cooperation with the Audit Committee, organised a tender for the appointment of an auditor. As a result of the tender, AS PricewaterhouseCoopers was chosen and appointed the company’s auditor at the annual general meeting of shareholders held on 15 May 2017. A three-year contract was entered with AS PricewaterhouseCoopers for the audit of the financial years 2017-2019.

During 2019, the auditor of the Company has provided to the Group a limited assurance engagement in respect of packaging report, that is permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

OTHER INFORMATION

The Group’s Management Board publishes the annual report once a year and interim reports during the financial year. The information provided in reports is based on the reporting of financial indicators of intra-Group units that are monitored regularly. Reports are supplemented on a continuous basis in a process during which indicators influencing the achievement of agreed objectives are analysed. Shareholders are presented an annual report signed by the members of the Management Board and the Supervisory Board for consideration.

FINANCIAL RATIOS

€ thousand

Income statement	2019	2018
Revenue	13,333	12,528
EBITDA	325	428
EBITDA margin	2%	3%
Operating profit	(343)	(130)
Operating margin	(3%)	(1%)
Net profit	(1,127)	(360)
Net margin	(8%)	(3%)
Discontinued operations	(271)	(532)
TOTAL NET PROFIT	**(1,398)**	**(891)**

Statement of financial position	31.12.2019	31.12.2018
Total assets	9,045	10,307
Return on assets	(12%)	(3%)
Equity	1,542	2,901
Return on equity	(73%)	(12%)
Debt-to-equity ratio	83%	72%

Share	31.12.2019	31.12.2018
Last Price*	0.41	0.36
Earnings per share	(0.31)	(0.20)
Price-earnings ratio	(1.32)	(1.81)
Book value of a share	0.34	0.64
Market to book ratio	1.20	0.56
Market capitalization, € thousand	1,845	1,611
Number of shares, piece	4,499,061	4,499,061

EBITDA = Earnings before interest, taxes, depreciation and amortization
EBITDA margin = EBITDA / Revenue
Operating margin = Operating profit / Revenue
Net margin = Net profit / Revenue
Return on assets = Net profit / Total assets
Return on equity = Net profit / Equity
Debt-to-equity ratio = Liabilities / Total assets
Earnings per share = Net profit / Total shares
Price-earnings ratio = Last price / Earnings per share
Book value of a share = Equity / Total shares
Market to book ratio = Last price / Book value of a share
Market capitalization = Last price * Total number of shares
*http://www.nasdaqbaltic.com/

SHARE

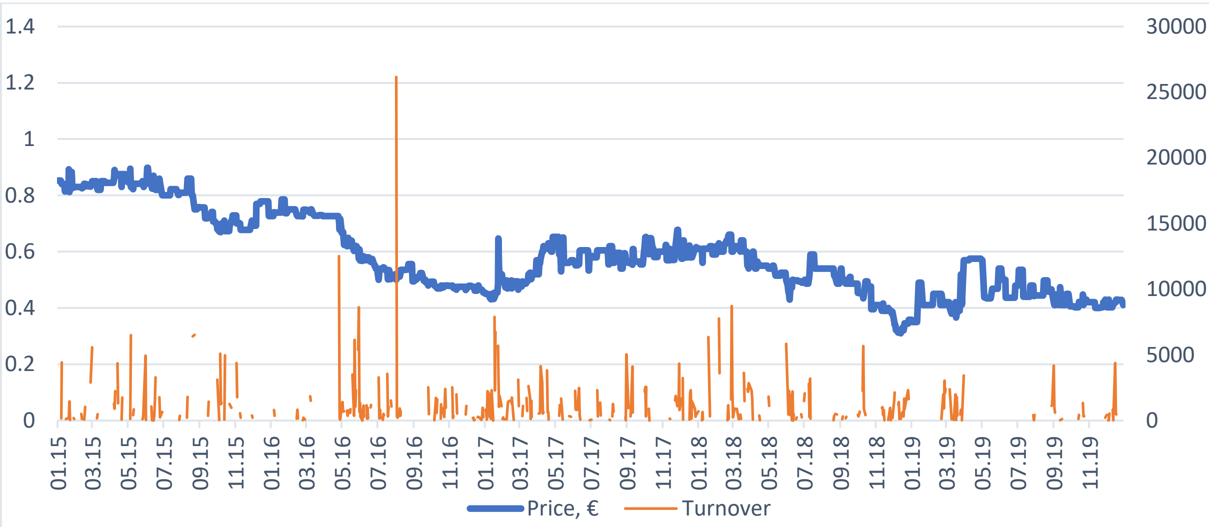
SHARE

Nordic Fibreboard AS has one type of shares and the Company's Statute have no provisions on restriction of sales of the Company's shares. The Company does not have shares that grant specific control rights and the Company has no information about agreements on restricting the voting rights of shareholders. The Company and shareholders have not entered into agreements between themselves that would restrict sale of shares.

VALUE OF SHARE

€	2019	2018	2017	2016	2015
Opening price €	0.36	0.62	0.46	0.73	0.85
Highest price €	0.58	0.66	0.69	0.79	0.90
Lowest price €	0.35	0.30	0.43	0.46	0.65
Last Price	0.41	0.36	0.62	0.46	0.73
Turnover, shares	175	291	319	286	166
Turnover, thousand €	75	140	170	160	130
Market cap, mllion	1.84	1.61	2.77	2.05	3.27

The following graph show the movements of Nordic Fibreboard AS price and turnovers for the years 2015 to 2019.



SHAREHOLDERS

SHARE CAPITAL BY THE NUMBER OF SHARES AS OF 31.12.2019

	Number of shareholders	% from shareholders	Number of shares	% from share capital
1 – 99	82	19%	2,146	0%
100 – 999	168	39%	57,114	1%
1 000 - 9 999	148	34%	447,874	10%
10 000 - 99 999	28	7%	707,154	16%
100 000 - 999 999	3	1%	602,581	13%
1 000 000 - 9 999 999	1	0%	2,682,192	60%
TOTAL	**430**	**100%**	**4,499,061**	**100%**

SHARE CAPITAL GEOGRAPHICALLY AS OF 31.12.2019

	Number of shareholders	% from shareholders	Number of shares	% from share capital
Estonia	401	93%	4,257,797	95%
Finland	9	2%	38,247	1%
Germany	4	1%	33,981	1%
Latvia	2	0%	104,792	2%
Lithuania	5	1%	36,361	1%
Other	9	2%	27,883	1%
TOTAL	**430**	**100%**	**4,499,061**	**100%**

SHARE CAPITAL BY THE TYPE OF THE OWNERS AS OF 31.12.2019:

	Number of shareholders	% from shareholders	Number of shares	% from share capital
Private individuals	374	87%	820,935	18%
Institutional investors	56	13%	3,678 ,26	82%
TOTAL	**430**	**100%**	**4,499,061**	**100%**

LIST OF THE SHAREHOLDERS WITH THE OWNERSHIP MORE THAN 1% AS OF 31.12.2019:

Shareholder	Number of shares	Shareholding %
Pärnu Holdings OÜ	2,682,192	60%
Gamma Holding Investment OÜ	362,581	8%
Il Grande Silenzio OÜ	140,000	3%
Live Nature OÜ	100,000	2%
Olegs Radcenko	89,000	2%
OÜ EKOTEK EESTI	59,750	1%
Osaühing Kalbro	53,080	1%
TOIVO KULDMÄE	49,231	1%
STETIND OÜ	44,206	1%
NIKOLAI TOVER	38,720	1%
MEELIS KÖRT	28,027	1%
SIIM TALMAR	28,000	1%
Hille Kallas	25,000	1%
LEIDA SEPP	24,808	1%
NORDEA BANK ABP/NON TREATY CLIENTS	22,771	1%

Direct ownership of the members of the Management and Supervisory Boards as at 31.12.2019:

- Joakim Johan Helenius – 20,000 shares, i.e. 0.4%
- Trond Bernhard Brekke – does not hold any shares
- Jan Peter Ingman – does not hold any shares
- Torfinn Losvik – does not hold any shares
- Sakari Wallin – does not hold any shares

Both Joakim Johan Helenius and Torfinn Losvik have indirect ownership through parent company Pärnu Holdings OÜ. Indirectly Torfinn Losvik owns shares through Stetind OÜ in the amount of 44,206 shares (2018: 11,980 shares).

DIVIDEND POLICY

In accordance with the terms of the Group's loan contracts, the payment of dividends is currently restricted. When financial results improve, and certain financial ratios are met, it will be possible to pay dividends to the shareholders in the future. As a rule, payment of dividends is decided annually and depends on the Group's performance, possible investment needs and fulfilment of requirements provided in loan contracts.

RISKS

INTEREST RATE RISK

Nordic Fibreboard AS's interest rate risk relates to changes in EURIBOR (Euro Interbank Offered Rate) since our loans are linked to EURIBOR. At 31.12.2019 six months' EURIBOR rate was (0.324) and at 31.12.2018 (0.237). As EURIBOR is negative and in the loan agreements it is set to 0%, the continued negative rate of EURIBOR does not have interest expense reducing effect. As the borrowing have a maturity of up to 2 years or less, management is in opinion that the floating interest rate will not bear significant impact to Group's cash flows.

The dates for fixing interest rates on the basis of changes in EURIBOR are the 30th day of every six months for its bank loans.

The interest rate risk also depends on the overall economic situation in Estonia and in the eurozone. Nordic Fibreboard AS has a cash flow risk arising from the interest rate risk because its loans have a floating interest rate. Management believes that the cash flow risk is not significant, therefore no hedging instruments are used.

FOREIGN CURRENCY EXCHANGE RISK

The foreign exchange risk is the risk that the company may have significant loss because of fluctuating foreign exchange rates. Nordic Fibreboard has no operations outside of the euro zone and most of our export-import contracts to customers outside of the eurozone are nominated in EUR. Raw materials for production and goods purchased for resale in our retail operations are mainly in EUR.

RISK OF THE ECONOMIC ENVIRONMENT

The risk of the economic environment for the fibreboard division depends on general developments in the construction and industrial segments.

FAIR VALUE

The management estimates that the fair values of cash, accounts receivables and payables, short-term loans and borrowings do not materially differ from their carrying amounts. The fair values of long-term loans do not materially differ from their carrying amounts because their interest rates correspond to the interest rate risks prevailing on the market.

LIQUIDITY RISK

The liquidity risk is a potential loss arising from the existence of limited or insufficient financial resources that are necessary for performing the obligations related to the activities of the Group. The Management Board continuously monitors cash flow movements, using the existence and sufficiency of the Group's financial resources for performing the assumed obligations and financing the strategic objectives of the Group.

GROUP STRUCTURE

SHARES OF SUBSIDIARIES

Domicile		Number of shares (pcs) 31.12.2019	Ownership % 31.12.2019	Number of shares (pcs) 31.12.2018	Ownership % 31.12.2018
Nordic Fibreboard Ltd OÜ	Estonia	1	100	1	100
Skano Furniture OÜ	Estonia	1	100	1	100
Pärnu Riverside Development OÜ	Estonia	1	100	1	100
OÜ Isotex	Estonia	1	100	1	100
Suomen Tuulileijona OY	Finland	1	100	1	100
UAB Skano LT	Lithuania	100	100	100	100

Nordic Fibreboard AS (with previous name Skano Group AS) is a holding company of subsidiaries Nordic Fibreboard Ltd OÜ (with previous name Skano Fibreboard OÜ), Pärnu Riverside Development OÜ (since 2019, established by the demerger of subsidiary) and Skano Furniture OÜ. Nordic Fibreboard Ltd OÜ manufactures and distributes wood fibreboards for the construction sector (wind barrier, insulation, sound protection), interior panels for ceiling and walls, as well as various industrial applications for use in packaging, door cores, pin boards, and expansion joint fillers. Nordic Fibreboard Ltd OÜ owns a subsidiary Suomen Tuulielijona OY, who is marketing company in Finland. Skano Furniture OÜ owns two retail furniture shop subsidiaries Skano SIA and Skano LT UAB, which both ended their operations in September 2019. Skano SIA were deregistered on 27.11.2019 while Skano LT UAB remains as a dormant company.

Pärnu Riverside Development OÜ owns the property located at Suur-Jõe 48 in Pärnu. Isotex OÜ, a subsidiary of Nordic Fibreboard AS, is non-active company with no business activities in 2019 and 2018.

CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

The Corporate Governance Recommendations is a set of guidelines and recommended rules to be carried out primarily by entities whose shares have been admitted to trading on a regulated market in Estonia. From 1 January 2006, the listed entities are required to follow the principle “Comply or Explain”.

The Corporate Governance Recommendations lay down the principles of calling and conducting general meetings of shareholders, composition, activities and responsibilities of Supervisory and Management Boards, disclosures and financial reporting.

As the principles outlined in the Corporate Governance Recommendations are recommended, the Company does not have to comply with all of them but needs to explain in the Corporate Governance Recommendations Report why these requirements are not complied with.

In its business, Nordic Fibreboard AS adheres to prevailing laws and legislative provisions. As a public entity, Nordic Fibreboard AS also follows the requirements of the Tallinn Stock Exchange and the principles of equal treatment of shareholders and investors. Pursuant to this, the Company follows most of the guidelines set out in the Recommendations. Below are arguments for noncompliance of the Recommendations that the Company does not comply with.

Clause 1.1.1 The Issuer shall enable shareholders to raise questions on items mentioned in the agenda, including prior to the day of the General Meeting. In the notice calling the General Meeting, the Issuer shall include the address or e-mail address to which the shareholder can send questions. The Issuer shall guarantee a response to valid questions at the General Meeting during hearing of a corresponding subject or before the holding of the General Meeting, giving shareholders enough time for examining the response. If possible, the Issuer shall give its responses to questions presented before holding the General Meeting and shall publish the question and response on its website.

Possibility to forward questions was granted, however no valid questions were presented prior nor during the General Meeting.

Clause 1.3.2 Members of the Management Board, the Chairman of the Supervisory Board and if possible, all members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.

The member of the Management Board and the CFO of Nordic Fibreboard AS where present at the General Meeting of Shareholders on 27th of May 2019. Neither Members of the Supervisory Board nor the auditor were present at the meeting. The auditor was not present at the meeting, because the Management Board did not consider the auditor's participation necessary, as there were not any issues on the agenda that might have needed the auditor's comments. The auditor has expressed his opinion in the auditor's report, stating that the consolidated financial statements of the Group give a true and fair view, in all material respects, of the financial position of the Group as at 31.12.2018 and the financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. At the same time the agreement with the auditors was in force that in case the shareholders have questions to the auditors, the auditors were ready to answer all questions immediately by phone during the General Annual meeting. The shareholders did not have questions to the auditors. The Supervisory Board has expressed its satisfaction with the auditor's work.

Clause 1.3.3 The Issuer shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive to the Issuer.

At General Meeting the Issuer did not make monitoring and participation by communication equipment's possible, because no technical equipment was available.

Clause 2.2.1 The Management Board shall have more than one (1) member and the Chairman shall be elected from among the members of the Management Board. The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board. The Chairman of the Supervisory Board shall conclude a contract of service with each member of the Management Board for discharge of their functions.

The Management Board of the Issuer has one member only, who is the Chairman of the Management Board. The Subsidiaries Nordic Fibreboard Ltd OÜ and Suomen Tuulielijona OY have three members in their respective Management Boards. Contracts of service have been concluded with the member of the Management Board which also regulate the areas of responsibility.

Clause 2.2.7 Basic wages, performance pay, termination benefits, other payable benefits and bonus schemes of a member of the Management Board as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in a clear and unambiguous form on the website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as at the day of disclosure.

The Issuer shall not disclose the remuneration paid to the member of the Management Board by person because the Issuer considers this information sensitive to a member of the Management Board and invasion of his privacy. Its disclosure is not necessary for making a statement of the management quality of the Issuer and it will harm the competitive position of the Issuer and the members of the Management Board. Thus, the Issuer has decided not to disclose the remuneration paid to the member of the Management Board.

Clause 3.1.3 Upon the establishment of committees by the Supervisory Board, the Issuer shall publish their existence, duties, membership and position in the organisation on its website. Upon a change in the committee's structure, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.

During 2019, the Supervisory Board of the Issuer has not established any committees.

Clause 3.2.5 The amount of remuneration of a member of the Supervisory Board appointed at the meeting and the procedure for his payment shall be published in the Corporate Governance Recommendations Report, outlining separately basic and additional remuneration (incl. termination and other payable benefits).

The Issuer does not pay any remuneration to the members of the Supervisory Board.

Clause 5.2 The Issuer shall publish the disclosure dates of information subject to disclosure throughout the year at the beginning of the financial year in a separate notice, called a financial calendar.

The Issuer did not disclose a separate notice but information subject to disclosure was made public no later than at the dates set out in the law.

Clause 5.6 The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website.

According to the rules and regulations of the Tallinn Stock Exchange, the Group shall disclose all relevant information through the stock exchange. The Issuer does not regularly organise press conferences and meetings, therefore, the schedule of meetings cannot be disclosed. At the meetings with investors, only previously disclosed information shall be supplied.

Clause 6.2.1 Together with a notice calling the General Meeting, the Supervisory Board shall make information on an auditor's candidate available to shareholders. If it is desired to appoint an auditor who has audited the Issuer's reports for the previous financial year, the Supervisory Board shall pass judgement on his work.

The auditor shall be paid a fee according to the concluded contract. According to the contract, the amount of the fee shall be confidential. However, the Issuer believes that the disclosure of the fee does not affect the reliability of the audit. As the Supervisory Board wants to continue cooperation with the auditor, it is a proof that the Supervisory Board is satisfied with the current auditor.

The activities of the Issuer comply with the requirements of the Corporate Governance Recommendations in all other aspects.

ENVIRONMENTAL POLICY

Since 2004, both the furniture factory and fibreboard factories hold integrated termless environmental permits which are required by the Integrated Pollution Prevention and Control Act. Adherence to the requirements of the permits ensures that production activity has a minimal impact on the environment. The requirements set out in the integrated permit ensure the protection of water, air and soil, and the management of generated waste in an environmentally sustainable manner. From 2020 year, Nordic Fibreboard will apply for an ambient air pollution permit and a special water permit separately.

To meet the requirements of the Packaging Act, in 2005 the Company entered into a contract with the Estonian Recovery Organisation (ERO). Under the contract, all responsibilities of Nordic Fibreboard AS related to packaging collection, recovery and related reporting were transferred to ERO. The contract ensures that all end consumers may return the packaging free of charge to containers bearing the Green Point sign.

The Forest Stewardship Council (FSC) is an international non-profit independent organisation the goal of which is foster environmentally friendly forest management. By possessing the FSC certificate we support such forest management was that will preserve biodiversity, productivity and natural processes of forests. Upon implementation of the FSC policy, Nordic Fibreboard AS precludes the use of such timber that has been felled illegally; that comes from genetically modified trees, that comes from regions where traditional or civil rights are violated and timber which is not certified in old growth forests with high conservation value. The soft fibre factories hold the FSC certificate since 14 January 2011. From 27th of November 2018 Nordic Fibreboard Ltd OÜ has been assessed and certified as meeting the requirements of PEFC standard. The Certificate is valid from 27th of November 2018 to 26th of November 2023.

WATER USAGE

thousands of m³	**2019**	**2018**	**Change %**
Water usage:	154.8	202.7	(24%)
groundwater (own bore wells)	131.0	152.2	(14%)
surface water	23.7	50.5	(53%)
Water discharge:	110.6	157.4	(30%)
conditionally clean wastewater	11.1	7.5	47%
surface water	99.5	149.8	(34%)
Water loss	44.2	45.3	(3%)

WATER USAGE AND WASTEWATER DISCHARGE

€thousand	**2019**	**2018**	**Change %**
Water usage:	13.0	14.5	(11%)
groundwater (own bore wells)	12.3	13.0	(6%)
surface water	0.7	1.5	(53%)
Water discharge:	147.7	221.9	(33%)
wastewater	147.7	221.9	(33%)
Total expenses	**160.7**	**236.5**	**(32%)**

MAIN POLLUTANTS

tons	2019	2018	Change %
Volatile organic components	8.2	8.0	2%
Organic dust	90.7	95.1	(5%)
Total	**98.9**	**103.1**	**(4%)**

WASTE HANDLING

€thousand	2019	2018	Change %
Handling of hazardous waste	0.2	0.1	100%
Handling of non-hazardous waste	28.8	13.9	108%
Total expenses	**29.0**	**14.0**	**108%**

€thousand	2019	2018	Change %
Sales of metal waste	3.6	1.5	137%
Total conditionl income	**3.6**	**1.5**	**137%**

Information on water usage, wastewater discharge, waste handling and pollutants is provided from the Group`s continuing operations.

MANAGEMENT BOARD'S CONFIRMATIONS

The Management Board has prepared the management report and the consolidated financial statements of Nordic Fibreboard AS for the financial year ended 31 December 2019.

The Management Board confirms that the management report on pages 4-19 provides a true and fair view of the business operations, financial results and financial condition of the parent company and the entities included in consolidation as a whole.

The Management Board confirms that according to their best knowledge the consolidated financial report on pages 21-72 presents a fair view of the assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Union and contains a description of the main risks and doubts.

Torfinn Losvik

Chairman of the Management Board ……………………………………

Pärnu, June 30, 2020

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ thousand	**31.12.2019**	**31.12.2018**
Cash and cash equivalents	7	54
Receivables and prepayments (Note 5)	1,394	1,142
Inventories (Note 6)	894	2,255
Total current assets	**2,296**	**3,452**
Investment property (Note 7)	1,121	175
Available-for-sale financial assets (Note 9)	397	422
Property, plant and equipment (Note 8)	5,212	6,223
Intangible assets (Note 8)	19	34
Total non-current assets	**6,749**	**6,855**
TOTAL ASSETS	**9,045**	**10,307**
Borrowings (Notes 10)	4,547	662
Payables and prepayments (Notes 11)	2,665	2,418
Short-term provisions (Note 12)	20	15
Total current liabilities	**7,232**	**3,095**
Long-term borrowings (Notes 10)	92	4,102
Long-term provisions (Note 12)	179	210
Total non-current liabilities	**271**	**4,311**
Total liabilities	**7,503**	**7,406**
Share capital (at nominal value) (Note 13)	2,699	2,699
Share premium	364	364
Statutory reserve capital	288	288
Other reserves	84	45
Retained earnings (loss)	(1,894)	(496)
Total equity (Note 13)	**1,542**	**2,901**
TOTAL LIABILITIES AND EQUITY	**9,045**	**10,307**

*The notes to the financial statements presented on pages 25 to 72 are an integral part of these consolidated financial statements.

pwc Initialled for identification purposes only
Initials I.S. Date 30.06.2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

€ thousand	2019	2018
Continued operations		
Revenue (Note 24)	**13,333**	**12,528**
Cost of goods sold (Note 15)	11,538	10,479
Gross profit	**1,796**	**2,049**
Distribution costs (Note 16)	1,698	1,898
Administrative expenses (Note 17)	658	498
Other operating income (Note 19)	351	14
Other operating expenses (Note 20)	134	89
Operating loss	**(343)**	**(422)**
Finance income (Note 21)	19	22
Finance costs (Note 21)	803	243
LOSS BEFORE INCOME TAX	(1,127)	(643)
Corporate income tax	0	2
NET LOSS FOR THE FINANCIAL YEAR FROM CONTINUING OPERATIONS	**(1,127)**	**(645)**
Net loss for the financial year from discontinuing operations	(271)	(246)
NET LOSS FOR THE FINANCIAL YEAR	**(1,398)**	**(891)**
Basic earnings per share (Note 14)	(0,31)	(0,20)
Diluted earnings per share (Note 14)	(0,30)	(0,20)

*The notes to the financial statements presented on pages 25 to 72 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

€ thousand	2019	2018
Cash flows from operating activities		
Operating profit (loss)	**(343)**	**(423)**
Adjustments:		
Depreciation charge (Notes 7; 8)	669	558
Profit from revalution of real estate investment (Note 7)	(327)	0
Loss from disposal of non-current asset	2	0
Non-monetary transactions: reserve for share option	39	37
Loss from disposal of available-for-sale financial assets (Notes 9; 21)	25	2
Expenses of doubtful receivables	1	0
Change in trade and other receivables (Note 5)	(651)	(1,532)
Change in inventories (Note 6)	581	83
Change in trade and other payables (Note 11)	617	653
Discontinued operations	131	1,374
Cash generated from operations	**744**	**752**
Interest payments (Note 21)	(221)	(240)
Corporate income tax paid	0	(2)
Net other financial income and expense (Note 21)	(7)	(3)
Net cash generated from operating activities	**516**	**507**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets (Notes 8)	(133)	(30)
Purchase of real estate investment (Note 7)	(20)	(5)
Acquisition of available-for-sale financial assets (Note 9)	0	(240)
Net cash used in investing activities	**(153)**	**(275)**
Cash flows from financing activities		
Repayment of loans received (Note 10)	(306)	(246)
Loans received from related parties (Note 10)	304	120
Repayment of loans received from related parties (Note 10)	(284)	(120)
Finance lease payments	(96)	0
Change in overdraft (Note 10)	(28)	137
Change in factoring (Note 10)	0	(143)
Net cash (used in)/from financing activities	**(410)**	**(252)**
NET CHANGE IN CASH	**(47)**	**(20)**
Effect of exchange rate changes on cash and cash equivalents	0	0
OPENING BALANCE OF CASH	**54**	**74**
CLOSING BALANCE OF CASH	**7**	**54**

*The notes to the financial statements presented on pages 25 to 72 are an integral part of these consolidated financial statements.

pwc Initialled for identification purposes only
Initials I.S. Date 30.06.2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total
Balance at 31.12.2017	**2,699**	**364**	**288**	**9**	**393**	**3,753**
Share options 12M 2018	0	0	0	37	0	**37**
Other changes	0	0	0	0	2	**2**
Net profit/loss for 12M 2018	*0*	*0*	*0*	*0*	*(891)*	***(891)***
Other comprehensive income for 12M 2018	*0*	*0*	*0*	*0*	*0*	***0***
Total comprehensive profit/loss for 12M 2018	0	0	0	0	(891)	**(891)**
Balance at 31.12.2018	**2,699**	**364**	**288**	**45**	**(496)**	**2,901**
Share options 12M 2019	0	0	0	39	0	**39**
Net profit/loss for 12M 2019	*0*	*0*	*0*	*0*	*(1,398)*	***(1,398)***
Other comprehensive income for 12M 2019	*0*	*0*	*0*	*0*	*0*	***0***
Total comprehensive profit/loss for 12M 2019	0	0	0	0	(1,398)	**(1,398)**
Balance at 31.12.2019	**2,699**	**364**	**288**	**84**	**(1,894)**	**1,542**

* More detailed information about share capital is disclosed in Note 13.

*The notes to the financial statements presented on pages 25 to 72 are an integral part of these consolidated financial statements.

Initialled for identification purposes only
pwc Initials I.S. Date 30.06.2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

GENERAL INFORMATION

Nordic Fibreboard AS (former Skano Group AS, hereinafter the Company) (registration number: 11421437; address: Suur-Jõe 48, Pärnu), is an entity registered in the Republic of Estonia. It operates in Estonia and through its subsidiaries in Lithuania and Finland. The consolidated financial statements prepared for the financial year ended 31 December 2019 include the financial information of the Company and its 100% subsidiaries (together referred to as the Group):

	Nordic Fibreboard Ltd OÜ	Skano Furniture OÜ	Pärnu Riverside Development OÜ	OÜ Isotex	Suomen Tuulileijona OY	UAB Skano LT
Domicile	(Estonia)	(Estonia)	(Estonia)	(Estonia)	(Finland)	(Lithuania)
Share %	100	100	100	100	100	100

The Group's main activities are production and distribution of furniture and softboard made of wood.

Nordic Fibreboard AS was established on 19 September 2007 in the demerger of the former Skano Group AS, currently AS Trigon Property Development, as a result of which the manufacturing units, i.e. the building materials division and furniture division were spun off and transferred to the new entity.

The Group's shares were listed in the Main List of the Tallinn Stock Exchange until 2nd of April 2018, when the shares were moved from the Main List to the Secondary List. Until November 2009, the ultimate controlling party of Nordic Fibreboard AS was TDI Investments KY. The Group has since November 2009 not had any ultimate controlling party. Its largest shareholder today is Pärnu Holdings OÜ (owning 59.62%), of which the main investors with the largest holdings in Pärnu Holdings OÜ have significant influence over the Group as at 31 December 2018 and 31 December 2019, these being AS Trigon Capital (45.18%) and Stetind OÜ (46.99%).

The Management Board of Nordic Fibreboard AS authorised these consolidated financial statements for issue on 26 June, 2020. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of Nordic Fibreboard AS and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

A. BASIS OF PREPARATION

The 2019 consolidated financial statements of Nordic Fibreboard AS have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

The financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in accordance with IFRS requires management to make assumptions and pass judgements, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and related assumptions are based on the historical experience and several other factors that are believed to be relevant and that are based on circumstances which help define principles for the evaluation of assets and liabilities and which are not directly available from other sources. Actual results may not coincide with these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised prospectively after the period in which a change in the estimate occurred. Note 4 includes those areas which require more complicated estimates and where accounting estimates and assumptions have a material impact on the information recognised in the financial statements.

CHANGES IN ACCOUNTING POLICIES

a) Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from January 1, 2019:

IFRS 16 „Leases“ (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. As at 31 December 2018, the Group had long-term leases that meet such conditions.

Impact on first-time adoption of new standard on 1 January 2019:

- The new standard will affect virtually all commonly used financial ratios and performance metrics such as gearing, current ratio, asset turnover, interest cover, EBITDA, EBIT, operating profit, net income, EPS, ROCE, ROE and operating cash flows.
- Balance sheets will grow, gearing ratios will increase, and capital ratios will decrease.

The Group had as of 31.12.2018 the future minimum lease payments in relation to non-cancellable operating leases in the amount € 567 thousand. Starting from 1 January 2019, the Group recognised € 73 thousand on the Group`s statement of financial position as right-of-use assets and lease liabilities, thus increasing the total of the statement of financial position of the Group. Future minimum lease payments in the amount € 492 thousand as at 31 December 2018 were not recognised as right-of-use assets or financial lease due to the fact that at the beginning of 2019 the Group had known and partially received agreements with lessors on early termination of lease agreements. The premature termination of all leases was due to the closure of the retail furniture business.

Lease liabilities that are recognised in the statement of financial position on initial application, are presented below:

	€ thousand
Future minimum lease payments in relation to non-cancellable operating leases as at 31 December 2018 (IAS 17)	**567**
(Less): short-term leases and leases which early termination was known not recognised as a liability	(492)
Discounted using the lessee`s incremental borrowing rate of at the date of initial application 2,19-2,49%	73
Effect from discounting using the lessee`s incremental borrowing rate at the date of initial application	(2)
Lease liability recognised in the statement of financial position as at 1 January 2019 (IFRS 16)	**73**

On initial application as at 01 January 2019, the Group has measured the associated right-of-use asset at the amount equal to the liability.

The Group has recognised in the statement of financial position the following adjustments as at 1 January 2019:

	€ thousand
Right-of-use assets - increase	73
Lease liabilities - increase	73
The net impact on retained loss on 1 January 2019	**0**

More information on the right-of-use assets is provided in the Note 8, for lease liabilities in the Note 10. The full accounting policy in disclosed in Note 2.M.

b) New accounting pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group`s annual periods beginning on or after 1 January 2020, and which the Group has not early adopted.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group is currently assessing the impact of the new amendment.

Definition of a business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Group is currently assessing the impact of the new amendment.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the new amendment.

The other new and revised standards are interpretations that are not yet effective are not expected to have a material impact on the Group.

c) Change in the Group`s accounting policy.

From 2019 the company changed the accounting policy for recognizing investment properties retrospectively. Investment properties are now recognized at the fair value instead of the previously used adjusted cost principle. The change was made because it is the opinion of the Management that the fair value principle better reflects the value position of the Group`s investment properties. Mainly because when subsidiary Pärnu Riverside Development OÜ was established by the demerger of subsidiary, then the new subsidiary became the new owner of the land and is dealsing with the realization of the development potential oh the land plot. Valuation of investment property in Suur-Jõe street 48 at fair value was based on an expert valuation report conducted by an independent valuer in 2019 and valuation of investment property in Rääma street 31 at fair value was based on a decision on the Management and an expert evaluation report prepared by an independent valuer in 2016.

B. COMPARABILITY

The financial statements have been prepared in accordance with the consistency and comparability principles, the nature of the changes in methods and their effect is explained in the respective notes. When the presentation of items in the financial statements or their classification method has been amended, then also the comparative information of previous periods has been restated.

C. FOREIGN CURRENCY TRANSACTIONS, FINANCIAL LIABILITIES AND ASSETS DENOMINATED IN A FOREIGN CURRENCY

(A) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the consolidated financial statements of each of the Group’s entities are measured using the currency of their primary economic environment (the functional currency). The consolidated financial statements are presented in euros (€), which is the functional currency of the parent and the presentation currency of the Group.

The consolidated financial statements are presented in thousands of euros (€), which is in compliance with the requirements of the Tallinn Stock Exchange.

(B) FOREIGN CURRENCY TRANSACTIONS, ASSETS AND LIABILITIES DENOMINATED IN A FOREIGN CURRENCY

Foreign currency transactions have been translated into the functional currency using the official exchange rate of the European Central Bank prevailing at the transaction day. Exchange rate differences between the cash transfer date and the transaction date, the currency translation differences are recognised in the consolidated income statement. Monetary assets and liabilities denominated in a foreign currency are translated using the official euro exchange rate of the European Central Bank applicable at the end of the reporting period. Any translation gains and losses are recognised in the consolidated income statement. Gains and losses on translation of payables and cash and cash equivalents are recognised as finance income and costs in the consolidated income statement; other gains and losses from exchange rate changes are recognised as other operating income or operating expenses.

(C) CONSOLIDATION OF FOREIGN ENTITIES

The functional currency of the Group`s foreign subsidiaries does not differ from the presentation currency of the Group.

(D) PRINCIPLES OF CONSOLIDATION AND ACCOUNTING FOR SUBSIDIARIES

All subsidiaries have been consolidated in the Group's financial statements. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary or business unit is the fair values of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquirer either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets.

Goodwill is initially recognised as the amount by which the consideration transferred, and the value of non-controlled interests exceeds the fair value of identifiable assets and transferred liabilities. If this amount is lower than the fair value of net assets of the acquired subsidiary, the difference is recognised in the income statement.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company (except for the subsidiaries acquired for resale) are combined on a line-by-line basis. Intercompany balances, transactions and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Revenues and expenses of the subsidiaries acquired within the financial year are consolidated into the Group's statement of profit or loss and other comprehensive income starting from the date of acquisition to the end of the financial year. Result of operations of subsidiaries disposed of during the year are consolidated into Group's statement of profit or loss and other comprehensive income from the beginning of the financial year until the date of disposal.

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company, the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for accounting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27 "Separate Financial Statements".

In the parent separate primary financial statements, disclose in these consolidated financial statements (see Note Supplementary disclosures on the Group`s parent), the investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

(E) FINANCIAL ASSETS

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

All Group's debt instruments are classified in amortised cost measurement category.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

As at 1 January 2019 and 31 December 2019, the following financial assets of the Group were classified in this category:

- trade receivables; and
- cash and cash equivalents.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has made an irrevocable election to present in OCI the fair value gains and losses on equity investments that are not held for trading, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income/(expenses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables without a significant financing component the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

(F) CASH AND CASH EQUIVALENTS

For the purposes of the statement of financial position and the cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (except for overdraft) and term deposits with maturities of three months or less. Cash and cash equivalents are carried at the adjusted acquisition cost.

(G) TRADE RECEIVABLES

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method, less a provision for impairment.

Impairment of receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Evidence of potential impairment includes the bankruptcy or major financial difficulties of the debtor and non-adherence to payment dates. The impairment of the receivables that are individually significant (i.e. need for a write-down) is assessed individually for each customer, based on the present value of expected future collectible amounts. Receivables that are not individually significant or for which no objective evidence of impairment exists, are collectively assessed for impairment using previous years' experience on uncollectible receivables. The amount of loss of the impaired receivables is the difference between the carrying amounts of receivables and the present value of expected future cash flows discounted at the original effective interest rate. The carrying amount of receivables is reduced by the amount of doubtful receivables and the impairment loss is recognised in profit or loss within Other operating expenses. If a receivable is deemed irrecoverable, the receivable and its impairment loss are taken off the financial position statement. The collection of the receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables.

(H) INVENTORIES

Inventories are stated at the lower of acquisition cost and net realisable value. Inventories are initially recognised at acquisition cost which consists of purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their current condition and location.

In addition to the purchase price, purchase costs also include custom duties, other non-refundable taxes and directly attributable transport, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct raw materials and materials and packing material costs, unavoidable storage costs related to work in progress, direct labour costs), and also fixed and variable production overheads that are allocated to the cost of products on the basis of normal production capacities.

The weighted average cost method is used for the evaluation of inventories at the Group.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of the inventory write-down is recognised in the income statement line Cost of goods sold.

(I) INVESTMENT PROPERTY

Real estate properties (land, buildings) that the Group owns or leases under finance lease terms to earn lease income or for capital appreciation, and that are not used for the Group's operating activities, are classified as investment property.

Real estate properties consist of land owned by the Group that is not used by the Group for its own economic activities (plots of Suur-jõe 48 and Rääma 31).

Investment property is initially measured at its cost, including related transaction costs. Investment properties are subsequently carried at fair value (see also the change in accounting policy in Note 2 A (c)), which based on yearly market price set by an independent valuer or market, based in the prices of recent transactions for similar items (adjusting for estimates for differences) or using the discounted cash flow method. Changes in fair value are recognized in the income statement in line item "Other operating income". Investment property carried at fair value is not deprecated.

Subsequent costs are included in the carrying amount of the investment property when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the period in which they are incurred.

Real estate that is being constructed or developed for future use as investment property is recognized as investment property.

(J) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year and with a cost of 1000 euro. An item of property, plant and equipment is initially recognised at its cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Borrowing costs related to the acquisition of non-current assets, the completion of which occurs over a longer period of time, are included in the cost of non-current assets. The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

Costs of reconstruction and improvements are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the asset can be measured reliably. All other repair and maintenance costs are charged to the income statement during the period in which they are incurred.

Property, plant and equipment are subsequently carried at cost less accumulated depreciation and any impairment losses (see accounting policy L). The difference between the acquisition cost and the residual value of an asset is depreciated over the useful life of the asset. Each part of an item with a cost that is significant in relation to the total cost of the item and with a useful life different from other significant parts of that same item is depreciated separately based on its useful life.

Depreciation is calculated based on useful lives of items of property, plant and equipment, using the straight-line method. The annual depreciation rates applied to individual assets by groups of property, plant and equipment are as follows (per cent):

- buildings and facilities 2 – 15
- machinery and equipment 3 – 50
- motor vehicles 10 – 40
- other fixtures and fittings 20 – 50
- information technology equipment 30 - 50
- land is not depreciated

Depreciation of an asset begins when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use or upon its reclassification as held for sale. At each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual values are reviewed.

Where an asset's carrying amount exceeds its estimated recoverable amount (higher of an asset's fair value less costs to sell and its value in use), it is written down immediately to its recoverable amount (see the accounting policy in Section L).

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from the disposal of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

Items of property, plant and equipment that are expected to be sold within the next 12 months and for which the management has commenced active sales activities, and which are offered for sale at their fair value for a realistic price are reclassified as assets held for sale.

(K) INTANGIBLE ASSETS

Intangible assets are recognised in the financial statements only if the following terms have been satisfied:

- the asset is controlled by the Group;
- it is probable that the Group will benefit from the use of the asset in the future;
- acquisition cost of the asset can be reliably measured.

Intangible assets are amortised by using the straight-line method during the estimated useful life.

Intangible assets are tested for impairment if there are circumstances indicating such a possibility, similarly with the evaluation of impairment of property, plant and equipment.

Expenses related to current maintenance of computer software are recognised as cost at the time they are incurred. Purchased computer software that is not an inseparable part of specific hardware is recognised as intangible asset. Intangible assets with finite useful lives are amortised over their useful lives (2.5-5 years) using the straight-line method. The Group has no intangible assets with indefinite useful lives.

(L) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to depreciation and amortisation, and assets with unlimited useful lives (land) are reviewed for any indication of impairment. Whenever such indication exists, the recoverable amount of the asset is estimated and compared with the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If the fair value of an asset less sales expenses cannot be determined, the recoverable amount of the asset is its market value. The value in use of assets is determined as the current value of estimated cash flows generated in the future. Impairment of assets is estimated if following possible circumstances exist:

- market value of similar assets has decreased;
- general economic environment and the market situation has deteriorated which makes it probable that revenue generated from assets will decrease;
- interest rates of market have increased;
- physical condition of assets has suddenly deteriorated;
- income received from assets are lower than planned;
- results of some areas of activity are worse than expected;
- activities of certain money-earning units are planned to be terminated.

An impairment test is also carried out if the Group identifies other circumstances indicating loss of value of assets.

For impairment, the recoverable amount is evaluated either for a single asset item or for the smallest possible group of assets for which cash flow can be identified (cash generating unit). A cash generating unit is the smallest separately group of identifiable assets the cash flow generated can be forecast for significant part regardless of cash flow generated from the rest of assets. The impairment loss is expensed immediately in the income statement.

At the end of every reporting period it is assessed whether there are circumstances indicating that the impairment loss of assets recognised in previous years no longer exists or it has decreased. If any such circumstance exists, the recoverable amount of the asset is re-evaluated. In accordance with the results of the test, the impairment can be reversed in part or in full. Earlier loss is reversed only to the degree where the carrying amount does not exceed the carrying amount of such assets considering normal amortization of earlier years.

(M) LEASES

On 1. January 2019 the new standard IFRS 16 „Leases" became effective. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases.

Lessees are required to recognise:

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value;
and

(b) deprecation of lease assets separately from interest on lease liabilities in the income statement.

The Group has adopted IFRS 16 Leases retrospectively 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

On adoption of IFRS 16, the Group recognised tangible assets and lease liabilities in relation to leases, which had previously been classified as „operating leases" under the principles of IAS 17 Leases.

The Group leases various machinery and equipment used in economic activities. Rental contracts are typically made for fixed periods of up to 5 years but as a rule, include extension and termination options. Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions.

The Group recognises as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Lease liabilities were recognised as present value of lease payments. The right-of use assets were measured at the amount equal to the lease liability, as no adjustments to right of use assets were necessary. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable,

- variable lease payment that are based on some kind an index (for example inflation, Euribor),
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease, if it is readily determinable, or the Group's incremental borrowing rate. The alternative interest rate is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise IT-equipment and small items of office furniture. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The management reviews the assessment if a significant event or a significant change in circumstances occurs which affects the probability of using options and that is within the control of the management. Alternatively, the extension period of the contract has changed (for example, Group has exercised an option, which initially was considered reasonably uncertain or has not exercised an option, which was initially considered reasonably certain).

According to the contracts, Group has not granted any residual value guarantees in the end of the contracts.

On applying the standard as at 01.01.2019, the lease payments were discounted et the alternative interest rate range 2.19-2.49%.

The Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease terms of less than 12 months as at 1 January 2019 as short-term leases,
- lease agreements for low value assets excluded,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

As the result of application the Group's total assets in the statement of financial position as at 01.01.2019 increased € 73 thousand and liabilities increased € 73 thousand.

Group as a lessor:

Payments made or received under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Accounting policies until 31.12.2018:

Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Group as a lessee:

Assets and liabilities under finance leases are initially recognised at the lower of the fair value of the leased property and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Financial expenses are allocated over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

Group as a lessee and a lessor:
Payments made or received under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Properties leased out under operating leases are classified as investment property

(N) FINANCIAL LIABILITIES

Financial liabilities (trade payables, borrowings, accrued expenses and other short and long-term borrowings) are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest rate method. Upon the initial recognition of such financial liabilities which are not accounted for at fair value through profit or loss, the transactions costs directly attributable to the acquisition are deducted from their fair value.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are charged to period financial expenses.

The amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the statement of financial position in their redemption value. For determining the amortised cost of non-current financial liabilities, they are initially recognised at the fair value of the consideration received (less any transaction costs), calculating interest expense on the liability in subsequent periods using the effective interest rate method.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the Group does not have an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date. Borrowings due to be settled within 12 months after the balance sheet date that are refinanced as long-term after the balance sheet date but before the financial statements are authorised for issue, are recognised as current liabilities. Borrowings that the lender has the right to recall at the balance sheet date because of a breach of contractual terms are also recognised as current liabilities.

(O) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised in the statement of financial position when the Group has a present legal or contractual obligation which has arisen as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the liability can be reliably estimated.

The provisions are recognised based on management's (or independent experts') estimates regarding the amount and timing of the expected outflows. Risks and uncertainties are taken into consideration when measuring provisions; the provisions for which the effect of the time value of money is significant are discounted. The increase of the provision due to the passage of time is recognised as an interest expense.

Other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities.

Provision for long-term disability compensations

Under law, the Group is obliged to pay compensation to employees for permanent injuries incurred during their employment at the Group. The level of the benefit depends on the extent of disability, the average monthly salary of the employee prior to injury, and the changes in pension payments by the state. The level of the benefit does not depend on the length of service. For the Group, the obligation to pay benefits arises at the time when the degree of the employee's incapacity for work is determined.

Disability compensation is recognised in the statement of financial position in its discounted present value. In measuring the liability, management has used demographic assumptions (such as mortality), and financial assumptions (e.g. the discount rate and future benefit levels).

The rate used to discount the obligation is determined by reference to market yields at the balance sheet date on high quality corporate bonds, the currency and term of which are consistent with the currency and estimated term of the obligation.

(P) LIABILITIES TO EMPLOYEES

Short-term labour expenses

Payables to employees contain the contractual right arising from employment contracts and performance-based pay which is calculated on the basis of Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is paid out in the next financial year.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability as at the balance sheet date. This liability also includes accrued social and unemployment taxes calculated on it.

Incapacity benefits (see accounting policy O).

(Q) TAXATION

Corporate income tax

Corporate income tax in Estonia:

According to the current legislation, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business-related disbursements and adjustments of the transfer price. From 1 January 2015, the tax rate on the net dividends paid out of retained earnings is 20/80. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be considered.

Due to the nature of the taxation system, the companies registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position. The maximum income tax liability which would accompany the distribution of the Company's retained earnings is disclosed in the notes to the financial statements.

Corporate income tax in other countries:

According to local income tax legislation, the profits of entities in Finland, Latvia and Lithuania are adjusted for the permanent and temporary differences provided by law. Pursuant to tax legislation, temporary differences arise between the carrying amounts and tax bases of assets and liabilities; therefore, deferred income tax liabilities and assets arise. As at 31.12.2019 and 31.12.2018, the subsidiaries did not have any deferred tax assets and liabilities. The management of the Group estimates that the realisation of the income tax asset is not reliably assessable, thus it is not recorded in the financial statements.

	2019	2018	2017
Latvia	20%	20%	15%
Lithuania	15%	15%	15%
Finland	20%	20%	20%

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution.

Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/income was recorded in the statement of profit or loss.

(R) REVENUE

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a good or service to a customer.

Sale of goods – wholesale

The Group manufactures and sells fibreboard and furniture products in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Fibreboard products are often sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the

contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable the wholesaler in relation to sales made until the end of the reporting period.
No element of financing is deemed present as the sales are made with a credit term of 45-90 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

If the Company provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Sale of goods – retail

The Group operates a chain of retail stores selling furniture products and accessories. Revenue from the sale of goods is recognised when the Group sells a product to the customer, ie delivery in store.

Payment of the transaction price is due immediately when the customer purchases the goods.

Under the Group's standard contract terms, customers have a right of return within 14 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

If the Group provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Financing component

Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

(S) CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash flows from operating activities are determined by adjusting the net profit for the financial year through elimination of the effect of non-monetary transactions, changes in the balances of assets and liabilities related to operating activities and revenue and expenses related to investing or financing activities. Cash flows from investing or financing activities are recognised under the direct method.

(T) STATUTORY RESERVE CAPITAL

Statutory reserve capital is formed from annual net profit allocations as well as other provisions which are entered in reserve capital pursuant to legislation or articles of association. The amount of reserve capital is stipulated in the articles of association and it cannot be less than 1/10 of share capital. Each financial year, at least 1/20 of net profit shall be entered in the reserve capital. When reserve capital reaches the level required by the articles of association, the allocations to reserve capital from the net profit may be terminated.

Based on the decision of the General Meeting of Shareholders, the statutory legal reserve may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from the statutory legal reserve.

(U) EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent by the period's weighted average number of outstanding ordinary shares. Diluted earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent by the weighted average number of outstanding ordinary shares, adjusted for the effect of dilutive potential ordinary shares.

(V) EVENTS AFTER THE BALANCE SHEET DATE

Significant circumstances that have an adjusting effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of approving the financial statements (June 26, 2020) but that are related to the reporting period or prior periods, have been recorded in the financial statements. Non-adjusting events and the events that have a significant impact on the results of the next financial year have been disclosed in the notes to the financial statements.

(W) FACTORING

Factoring is the transfer (sale) of receivables, whereby depending on the type of the factoring contract the buyer has the right to resell the transferred receivable within time agreed (factoring with recourse) or there is no right for resale and all the risks and gain associated with the receivable are transferred from seller to purchaser (factoring without recourse). If the seller of the receivable retains the repurchase obligation, the transaction is recognised as a financing transaction (i.e. as a loan with the receivable as a collateral) and not as a sale. The receivable is not considered as sold as a result of factoring, but it remains in the financial statement position until the receivable is collected, or the recourse right has expired. The related liability is recorded similarly to other borrowings. If there is no repurchase obligation and the control over the receivable and the related risks and gain of the ownership are transferred to the buyer, the transaction is recognised as a sale of the receivable. The related expense is recognised as a finance cost (similarly to interest expense) or as an impairment loss of receivables, depending on whether the purpose of the transaction was to manage the cash flows or to manage credit risk. The Group mainly uses factoring without recourse.

(X) SHARE-BASED PAYMENTS

Nordic Fibreboard AS operates a share-based compensation plan, under which the company receives services from group employees as consideration for equity instruments (options) of Nordic Fibreboard AS. The fair value of the services received in exchange for the grant of the options is recognised during the share-based compensation program as staff expense and as an increase in the equity (other reserves). The total amount to be expensed is determined by the fair value at the time of issuing the options. The fair value of the options granted:

- including any market performance conditions influencing the share price (e.g. Nordic Fibreboard AS share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified period).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the vesting conditions (other than market conditions). It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity. When the options are exercised, the Group issues new shares.

The grant by Nordic Fibreboard AS of options over its equity instruments to the Management Board members of subsidiary undertakings in the Group is treated as a capital contribution in a separate statement. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts. According to the contractual conditions of the share options there are no social security tax charges when exercising the options after the 3-year period.

(Y) SEGMENT REPORTING

Operating segments have been determined and information about operating segments has been disclosed in a manner consistent with preparation of reporting for making management decisions and analysing the results. Segment reporting is in compliance with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of Nordic Fibreboard AS.

Segment results, assets and liabilities include items which are directly related to the segment or can be allocated to it on a reasonable basis.

NOTE 3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISKS

The operations of the Group expose it to several financial risks: credit risk, liquidity risk and market risk (which involves foreign currency exchange risk and interest rate risk of cash flows). The general risk management programme of the Group focuses on unpredictability of the financial market and attempts to minimise any possible negative effects on the financial activities of the Group. The Group’s financial instruments include cash for funding operating activities and receivables from debtors and payables to creditors arising in operating activities as well as loans. Management defines risk as a potential deviation from the expected results. The Group’s risk management is based on the requirements of the Tallinn Stock Exchange, Financial Supervision Authority and other regulatory bodies as well as compliance with Corporate Governance Recommendations and the Group’s internal regulations. Financial assets of the Group in the categories of “Cash and cash equivalents” and “Receivables” and all financial liabilities in the category of “Other financial liabilities” are carried at amortised cost.

The Group has also financial assets in the category financial assets at fair value through profit or loss, carried at fair value through profit or loss statement.

€ thousand	31.12.2019	31.12.2018
Financial assets		
Cash and cash equivalents	7	54
Recievables (Note 5)	**1,193**	**976**
incl. trade receivables	1,186	911
incl. other receivables	7	65
Financial assets at fair value through profit or loss (Note 9)	**397**	**422**
Total financial assets	**1,598**	**1,453**
Financial liabilities		
Borrowings (Note 10)	**4,450**	**4,763**
Financial lease (Note 10)	**189**	**0**
Payables (Note 11)	**2,259**	**1,791**
incl. trade payables	2,226	1,768
incl. other payables	32	23
Total financial liabilities	**6,898**	**6,554**

(A) CREDIT RISK

Nordic Fibreboard AS's credit risk is the risk of the inability of its business partners to meet their contractual obligations. The Group's credit risk arises from cash and cash equivalents, deposits in banks and financial institutions as well as receivables exposed to risk.

Cash and cash equivalents

The Group approves banks and financial institutions with the credit rating of "A" as its long-term collaboration partners, however, for short period banks without a credit rating are also approved.

€ thousand	31.12.2019	31.12.2018
Credit rating "Aa2"-"Aa3"	6	52
Not rated (cash)	1	2
Total	**7**	**54**

The credit rating is derived from the website of Moody's Investor Service.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2018 and 31 December 2019.

Receivables

Pursuant to the Group's credit policy, no security is required from wholesale customers to ensure collection of receivables, but focus is laid on monitoring collection, balances of accounts receivable and compliance with payment terms on a continuous basis. In riskier markets, complete or partial prepayment, credit limits and shorter payment terms are applied.

As a rule, sales to retail customers occur in cash, using prepayments or bank credit cards, therefore there is no credit risk related to sale to retail customers except for risk related to banks and financial institutions that the Group has approved as its business partners.

As at the balance sheet date, the Group was not aware of any major risks related to accounts receivable, which had been deemed as uncollectible, see Notes 5 and 21. The Group monitors the financial position of its current and potential partners and their ability to meet the obligations they have assumed.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis described above, the loss allowance as at 31 December 2019 and 31 December 2018 (on adoption of IFRS 9) was determined immaterial.

Key customers and their share

Key customers are defined as those to whom the sales amount to more than 5% of the Group's revenue. The Group has five external customers whose revenue exceeds the previously pointed condition. Receivable balances from key customers based on overdue days:

thousand €	**31.12.2019**	**31.12.2018**
Not due	578	49
Overdue:		
Up to 90 days	73	1
Over 90 days	0	1
TOTAL	**651**	**52**

See also Note 5 for additional information regarding receivables.

Key customers receivable balances as of 31.12.2019 are outstanding as of 30.04.2020 € 0 thousand. All receivables as of 31.12.2019 are outstanding as of 30.04.2020 € 12 thousand.

Non-key customer related doubtful receivables amounted to € 1 for 2019, € 0 thousand for 2018 (see also Note 5 and Note 21).

(B) LIQUIDITY RISK

Liquidity risk is a potential loss arising from limited or insufficient monetary funds necessary for the meeting of obligations arising from the Group's operations. Management constantly monitors cash flow forecasts, evaluating the existence and availability of the Group's monetary resources to meet the obligations assumed and to fund the Group's strategic goals.

Analysis of financial liabilities by maturity as at 31.12.2019

	Balance at 31.12.2019	**Undiscounted cash flows**			
thousand €		**Up to 3 months**	**4-12 months**	**1-2 years**	**Total**
Borrowings (Note 10)	4,639	158	4,520	96	**4,774**
Trade payables (Note 11)	2,226	2,226	0	0	**2,226**
Other payables (Note 11)	32	32	0	0	**32**
TOTAL	**6,898**	**2,417**	**4,520**	**96**	**7,033**

Analysis of financial liabilities by maturity as at 31.12.2018

	Balance at 31.12.2018	Undiscounted cash flows			
thousand €		Up to 3 months	4-12 months	1-2 years	Total
Borrowings (Note 10)	4,763	509	368	4,149	**5,026**
Trade payables (Note 11)	1,768	1,768	0	0	**1,768**
Other payables (Note 11)	23	23	0	0	**23**
TOTAL	**6,554**	**2,299**	**368**	**4,149**	**6,816**

For determining cash flows for interest bearing borrowings which are based on floating interest rate, the spot interest rate in effect at the balance sheet date has been used. The unused limit of Group´s overdraft facilities as at 31 December 2019 was € 35 thousand (31 December 2018: € 82 thousand) and there were no active factoring contracts. From April 2017 the loan agreement was changed to annual amortisation schedule of 20 years with monthly payback obligation by the lender. In December 2017, amendment to the previous agreement was made, that as of February 2018 the loan amortisation schedule was reduced to 15 years. From July 2018 the loan amortisation schedule was reduced to 12 years and from September 2019 the loan amortisation schedule was reduced to 10 years.

As of 2019 include borrowings lease obligations under IRFS 16 effective 01.01.2019. As regards the Group`s liquidity, the management has disclosed additional information in Note 27.

(C) MARKET RISK

Interest rate risk of cash flows

The interest rate risk of the Group's cash flows is mainly related to long-term debt obligations with a floating interest rate.

The Group is exposed to cash flow risk affected by interest rate changes, because the loan has a variable interest rate – the sensitivity analysis for fluctuation in interest rates is presented below. The management estimates that the cash flow risk related to changes in interest rates is not material, therefore financial instruments are not used to hedge risks.

The interest rate risk of Nordic Fibreboard AS depends mainly on possible changes in EURIBOR (Euro Interbank Offered Rate), because the Group's loans are tied to 6-month EURIBOR. As of August 2018, there are no active factoring contracts. As at 31.12.2019, 6-month EURIBOR was (0.324) (31.12.2018: 6-month was (0.237)). As EURIBOR is negative and in the loan agreements it is set to 0%, the continued negative rate of EURIBOR does not have interest expense reducing effect. As the borrowing have a maturity of up to 2 years or less, management is in opinion that the floating interest rate will not bear significant impact to Group's cash flows.

The dates for fixing interest rates on the basis of changes in EURIBOR are the 30th day of every month. Six month's EURIBOR is fixed every six months.

As at 31.12.2019, the total carrying amount of the loan was € 0 million and as at 31.12.2018 € 4.40 million. Since 31.12.2019 all loan is short-time. The residual value of the long-term lease obligation as of 31.12.2019 was € 0.1 million (there was no obligation as of 31.12.2018).

The deposits of the Group's cash and cash equivalents have fixed interest rates.

As at 31.12.2019, the fixed interest overdraft agreement was in the amount of € 340 thousand (31.12.2018: € 368 thousand).

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the Group may incur a significant loss because of fluctuations in foreign currency exchange rates. Group's foreign currency rate exchange risk from export-import transactions is very low because most of the contracts have been concluded in Euro. In the financial year, the Group collected € 30 thousand in currencies not directly or indirectly tied to the Euro, of which 100% constituted proceeds in USD. The Group paid for goods and services in the amount of € 2 thousand in the currencies with an exchange rate risk of which 100% NOK. All Group companies whose assets and liabilities are located outside Estonia are exposed to changes in the local currency exchange rates, the base currency being EURO.

As the effect of currency risk is marginal, the Group has not acquired any derivative financial instruments to manage the currency risk.

As the Group's transactions and balances in foreign currencies are marginal in both 2019 and 2018, no currency position and sensitivity analyses have been prepared as of the balance sheet dates.

Price risk

The group's exposure to equity securities price risk arises from investments held by the group and classified in the balance sheet as financial assets at fair value through profit or loss. The Group acquired sister company (Trigon Property Development) shares. The shares are publicly traded, with rather small volumes and therefore poor liquidity. The share price has had an average volatility over last 3 years (2017-2019) of 64%. The table below shows potential impact on post tax profit with assumptions of 10%, 25%, 50%, 75% of sensitivity.

thousand €	Fair Value as at 31.12.2019	Impact on after-tax-profit (2019)	Fair Value as at 31.12.2018	Impact on after-tax-profit (2018)
TPD shares				
-current value (Note 9)	397		422	
impact:				
- change by 10%		40		42
- change by 25%		99		106
- change by 50%		199		211
- change by 75%		298		317

3.2 CAPITAL MANAGEMENT

In capital risk management, the Group's main goal is to ensure the Group's sustainability of operations to generate returns to its shareholders and benefits to other stakeholders, thereby maintaining the optimal capital structure to lower the cost of capital. To preserve or improve the capital structure, the Group can regulate the dividends payable to shareholders, reimburse the paid in capital, issue new shares or sell assets to lower its liabilities. The management monitors capital based on the debt to capital ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated financial position statement) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated financial position statement and net debt.

The loan agreement of Nordic Fibreboard AS specifies special conditions (loan/EBITDA ratio, total amount of investments), the non-fulfilment of which may prompt the lender to demand premature payment of the loan. As at the balance sheet date 31.12.2018, a conflict could have arisen over a particular conditions, but prior to the balance sheet date it was agreed with the lender that non-compliance with this special condition did not quality as a breach of the loan agreement. As of 31.12.2019, this confirmation was not required, as the loan agreement has been extended only for a short time.

thousand €	31.12.2019	31.12.2018
Borrowings (Note 10)	4,639	4,763
Cash and cash equivalents	7	54
Net debt	4,632	4,709
Total equity (Note 13)	1,542	2,901
Total capital	6,173	7,610
Debt to capital ratio	75%	62%

As at 31.12.2019 and 31.12.2019 the Group's equity was in compliance with the requirements of the Commercial Code.

3.3. FAIR VALUE

The Group divides financial instruments into three levels depending on their revaluation:

- Level 1: Financial instruments that are valued using unadjusted price from the stock Exchange or some other active regulated market.
- Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.
- Level 3: The valuation of financial assets and liabilities that are accounted as amortised cost is made on level 3.

Trade receivable, trade payable and short-term loans are recorded at amortised cost and since trade receivable, trade payable and short-term loans are short-term, management estimates that their carrying amounts are close to their fair values.

The fair values of long-term loans and borrowings do not significantly differ from their carrying value because the floating interest rates of loans correspond to fluctuation of the interest rates prevailing in the market. The risk margin of loans is dependent on ratio of total debt and EBITDA; therefore, the performance of the company's operations is reflected also in the risk margin.

Taking the previous information into account, the management estimates that the fair values of long-term liabilities do not materially differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

For financial assets at fair value through profit or loss, (i.e. sister company Trigon Property Development shares) no corrections at balance sheet date were made. The Management is in the opinion that since trading volumes on the securities are low and irregular the minor fluctuations in shares prices have little impact on overall result for 2019. Although the price of the investment is derived from Tallinn stock exchange and have not been adjusted due to liquidity of the market for the share, it is considered as level 2 instrument.

NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make accounting estimates. Management also needs to pass judgement regarding the choice of accounting policies and their application.

Management judgements and estimates are reviewed on an ongoing basis and they are based on historical experience and other factors such as forecasts of future events which are considered reasonable under current circumstances.

The areas which require more significant or complex management decisions and estimates, and which have a major effect on the financial statements, include valuation of receivables and inventories (Notes 5, 6), and estimation of recoverable value and residual value of property, plant and equipment (Note 8) and valuation of the fair value of investment property (Note 7), and the provisions for long-term disability benefits (Note 13).

VALUATION OF RECEIVABLES

Trade receivables are short-term receivables from customers, generated in the Group's ordinary course of business. Trade receivables are carried at amortised cost (i.e. original invoice amount less any repayments and any impairment losses, if necessary). In valuating receivables, the Management bases its estimations on its best knowledge, considering historical experience, general background information and possible assumptions and conditions of future events. In identifying the amount of receivable written down the overdue status is considered. See additional information in Notes 3 and 5.

VALUATION OF INVENTORIES

Management measures inventories using its best judgement, historical experience, general background information and assumptions and conditions of future expected events. In determining the recoverable amount of inventories, the sales potential and potential net realisable value of finished goods is considered; in assessing the recoverable amount of raw materials and materials, their potential use in producing finished goods and earning income is estimated. In assessing work-in-progress, its stage of completion which can be measured reliably is used as the basis. In assessing the cost of raw materials which are not precisely measurable, management uses estimates based on historical experience. See additional information in Note 6.

IMPAIRMENT TESTING OF NON-CURRENT ASSETS

If there exist any indications that an asset may be impaired, the Group estimates the recoverable amount (higher of the asset's fair value (less costs to sell) and its value in use) of the asset (see also the accounting policy in Section 2 L).

In 2019, impairment tests were conducted with regard to the property, plant and equipment in carrying amount € 5 205 thousand of the Nordic Fibreboard Ltd OÜ using the discounted cash flows method. The majority of the carrying amount is related with Püssi factory and remaining carrying amount with Pärnu factory, 3 897 thousand euros and 1 308 thousand euros respectively. In consideration of the capital structure of the company, the discount rate used was 10%. The recoverable amount of 2019 is found on the basis of value in use, which have been detailed from after-tax cash flow forecast for the period 2020-2024. The value in use was found using the following key assumptions, which are based on the management assessment of the previous year's actual performance and future forecasts and growth rates in the future. The most significant assumptions used:

- the average increase in revenue during the period: 1.7% p.a.;
- the average increase in gross profit during the period: 6.6% p.a.;
- the average EBITDA growth in the period: 24% p.a.;
- terminal growth rate: 1.9%.

The impairment test conducted in 2019 has a positive and therefore, there is no need for impairment for the Group of non-current assets. However, has the test was marginally positive, the test result is mainly sensitive to changes in gross margin and discount rate. The below table illustrates the 0.5 percentage points changes in gross margin and discount rate for the test result:

tuh €		Change in gross margin*		
		-0.5%	Base scenario	0.5%
Discount rate	9.5%	(428)	439	1,305
	10%	(809)	0	807
	10.5%	(1,142)	(384)	374

* The change in gross margin to the outcome of test result is applied with the principle that in every year during the period 2020-2024 the gross marginis +/-0.5% different to the base scenario.

FAIR VALUE OF INVESTMENT PROPERTY

Management determined the fair value of investment properties using valuation results from independent experts. More specifically, information on the fair value measurement of investment properties is disclosed in Note 9.

USEFUL LIVES AND RESIDUAL VALUES OF PROPERTY, PLANT AND EQUIPMENT

Management determined the useful lives of buildings and equipment based on production volumes, historical experience in the area and future outlook. The residual values are determined based on historical experience in the area and outlook. When assessing the sensitivity of profits to depreciation and amortisation, management assumed that by changing the deprecation rates by 25%, the Group's loss in 2019 would change by € 167 thousand from continuing operations (2018: € 140 thousand from continuing operation).

ESTIMATION OF PROVISIONS FOR LONG-TERM DISABILITY BENEFITS

Calculation of the amount of compensation depends on several assumptions, the most significant of which are assumptions regarding the expected remaining lives of employees receiving the benefits, and assumptions about the discount rate. Management has used the statistical data publicly available at the Statistical Office of Estonia regarding the expectations of the remaining period of payments. The discount rate is determined based on the Baltic bond list of high-quality corporate bond rate and the discount rate was 3.5% in 2019 and 2018. The change in the discount rate by one percentage point will change the liabilities balance by € 11 thousand in 2019 and € 15 thousand in 2018. See also Note 2 and Note 13. In 2019 the provision reserve decreased by € 10 thousand due to the death of one such former employee.

NOTE 5 RECEIVABLES AND PREPAYMENTS

€ thousand	31.12.2019	31.12.2018
Trade receivables - net (Note 3)	1,186	911
Prepaid taxes	185	150
Prepaid services	16	16
Other receivables (Note 3)	7	65
TOTAL	**1,394**	**1,142**

Impairment losses of receivables and their reversal are included in the income statement lines Other operating income and Other operating expenses, see also Notes 20 and 21.

ANALYSIS OF TRADE RECEIVABLES BY AGING:

thousand €	31.12.2019	31.12.2018
Not past due	**1,034**	**777**
incl receivables from customers who also have receivables past due	551	207
incl receivables from customers who have no receivables past due	483	570
Past due but not impaired	**152**	**134**
Overdue up to 90 days	140	132
Overdue more than 90 days	12	2
TOTAL	**1,186**	**911**

Trade receivables as of 31.12.2019 are outstanding as of 30.04.2020 € 12 thousand.

Other current receivables were not overdue as at 31.12.2019 (no overdues also 31.12.2018). The receivables and prepayments are pledged as part of the commercial pledge (Note 10).

NOTE 6 INVENTORIES

€ thousand	31.12.2019	31.12.2018
Raw materials and other materials	218	439
Work-in-progress	130	358
Finished goods	568	1,264
Goods purchased for resale	59	163
Goods in transit	0	133
Prepayments to suppliers	18	7
Write-off reserve for inventories	(100)	(109)
TOTAL	**894**	**2,255**

In the year 2019 raw materials at cost of € 0 thousand (2018: € 7 thousand) and finished goods at cost of € 1 thousand (2018: € 14 thousand) were written off. The inventory reserve remained changed € 9 thousand (2018: the reserve remained unchanged).

Inventories are pledged and are part of a commercial pledge (Note 10).

NOTE 7 INVESTMENT PROPERTY

	thousand €
Carrying amount 31.12.2017	**170**
Capitalized cost	5
Carrying amount 31.12.2018	**175**
Capitalized cost	20
Reclassification from fixed assets (Suur-Jõe 48)	599
Fair value revalution	327
Carrying amount 31.12.2019	**1,121**

In 2019, the Suur-Jõe 48 land plot was transferred between the Group`s subsidiaries (the land plot was transferred from Skano Furniture Factory OÜ to Pärnu Riverside Development OÜ) and in connection with this the purpose of the land changed and reclassification from property, plant and equipment to investment property. As a result, in 2019, the management changed the accounting policies for investment, investment property is no longer measured at cost but a fair value. The Company obtained a valuation of its Pärnu Riverside Development's property from an independent expert valuation company, which resulted in an increase in the value of the property from its past method of using cost based valuation. The revaluation of the registered immovable (no. 1409705) at Suur-Jõe street 48, Pärnu to fair value was based on an expert valuation carried out by an independent valuer in May 2019, based on the discounted cash flow method. The valuer relied on the lack of similar transactions and the use of transactions in other market areas would not have resulted in a fair price level in the valuation area. According to the management, the fair value presented in the valuation report of the independent appraiser was also representative as of the balance sheet date of 31.12.2019.

The market value of the share of the registered immovable (no. 1409605) at Rääma Street 31, Pärnu was evaluated by an independent real estate expert in January 2016. The fair value assumes that the share is separately realisable. Management estimates that the share of Rääma 31 property is separately realisable. The expert determined the market value of the property that is being evaluated by using the comparison method. In this case, the evaluation was performed based on transactions made with comparable registered immovables. For taking into consideration special features of comparable properties, adjustment of comparison elements was carried out. Due to Pärnu real estate transaction relative price stability in 2018 and 2019, management believes that during the year the fair value of the property have not significantly changed and therefore excluded from the new market value of the share valuation and the market value was based on the last drawn evaluation.

FAIR VALUE OF INVESTMENT PROPERTY:

31.12.2018	
Share of registered immovable property at Suur-Jõe 48, Pärnu	5
Share of registered immovable property at Rääma Street 31, Pärnu	170
31.12.2019	
Share of registered immovable property at Suur-Jõe 48, Pärnu	**951**
Share of registered immovable property at Rääma Street 31, Pärnu	**170**

Costs of maintenance for 2019 were € 21 thousand and € 0 in 2018. Rental income from investment properties for 2019 was € 18 thousand and € 1 thousand in 2018. Acquisitions of investment property during 2019 are related to expenses of Suur-Jõe 48, Pärnu detail plan.

NOTE 8 PROPERTY PLANT EQUIPMENT, RIGHT-OF-USE ASSETS & INTANGIBLE ASSETS

thousand €	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	Right-of-use asset	TOTAL
Cost at 31.12.2017	**223**	**4,970**	**14,488**	**183**	**0**	**0**	**19,865**
Accumulated depreciation at 31.12.2017	**0**	**(3,134)**	**(9,648)**	**(175)**	**0**	**0**	**(12,957)**
Carrying amount at 31.12.2017	**223**	**1,836**	**4,840**	**8**	**0**	**0**	**6,908**
Additions	0	0	27	2	0	0	**30**
Reclassification	0	0	0	0	0	0	**0**
Disposals and write-offs (Note 19)	0	0	(16)	(21)	0	0	**(37)**
Accumulated depreciation of fixed assets written off	0	0	16	21	0	0	**37**
Depreciation (Notes 15;16;17)	0	(174)	(537)	(3)	0	0	**(714)**
Cost at 31.12.2018	**223**	**4,970**	**14,500**	**167**	**0**	**0**	**19,857**
Accumulated depreciation at 31.12.2018	**0**	**(3,308)**	**(10,169)**	**(157)**	**0**	**0**	**(13,634)**
Carrying amount at 31.12.2018	**223**	**1,662**	**4,331**	**7**	**0**	**0**	**6,223**
Additions	0	0	47	0	86	0	**133**
Right-os-f-use assets additions	0	0	0	0	0	211	**211**
Reclassification	(32)	(2,397)	16	0	(16)	0	**(2,429)**
Change in accounting policies	0	0	0	0	0	73	**73**
Disposals and write-offs (Note 19)	0	0	(3,790)	(69)	0	(17)	**(3,876)**
Accumulated depreciation of fixed assets written off	0	0	3,701	68	0	17	**3,786**
Accumulated depreciation of reclassification assets written off	0	1,772	0	0	0	0	**1,772**
Depreciation (Notes 15;16;17)	0	(113)	(470)	(2)	0	(96)	**(681)**
Cost at 31.12.2019	**191**	**2,573**	**10,773**	**95**	**70**	**267**	**13,969**
Accumulated depreciation at 31.12.2019	**0**	**(1,649)**	**(6,398)**	**(91)**	**0**	**(79)**	**(8,757)**
Carrying amount at 31.12.2019	**191**	**924**	**3,835**	**4**	**70**	**188**	**5,212**

In 2019, land at measured cost of € 32 thousand and buildings and facilities were reclassified at measured cost of € 2.397 thousand and accumulated depreciation in the amount of € 1.772 thousand

Initialled for identification purposes only
pwc Initials I.S. Date 30.06.2020

as investment property, which is turn was revalued to fair value as of 31.12.2019. In connection with the sale of the subsidiary, machinery and equipment were written off at measured cost of € 3.790 thousand and accumulated depreciation in the amount of € 3.698 thousand and other inventories at measured cost of € 69 thousand and accumulated depreciation in the amount of € 68 thousand.

Due to the change in accounting policies, which means the first-time application of IFRS 16 as of 01. January 2019, the right-of-use assets at measured cost of € 73 thousand was recorded in the balance sheet as of 01 January 2019. During 2019, such rental lease were added, which were classified on the basis of IFRS 16 as right-of-use asset, in the amount of € 211 thousand. Rental lease with a measured cost of € 17 thousand were terminated, therefore their measured cost and accumulated depreciation of € 17 thousand were written off.

There were no sales of property, plant and equipment from continuing operations in 2019 and 2018.

As at 31.12.2019, the cost of fully depreciated property, plant and equipment still in use amounted to € 4.33 million and as at 31.12.2018, the respective amount was € 7.24 million.

Construction-in-progress

As at 31.12.2019 the construction-in-progress included investment in production technology in the amount of 70 thousand euros, last year 31.12.2018 there were no pending construction-in-progress.

INTANGIBLE ASSETS

thousand €	**Computer software**
Cost at 31.12.2017	**174**
Accumulated amortisation at 31.12.2017	**(127)**
Carrying amount 31.12.2017	**47**
Additions 2018	3
Disposals and write-offs	(48)
Accumulated depreciation of fixed assets written off	48
Amortisation charge (Notes 15;16;17)	(16)
Cost at 31.12.2018	**129**
Accumulated amortisation at 31.12.2018	**(96)**
Carrying amount 31.12.2018	**34**
Additions 2019	0
Disposals and write-offs	(42)
Accumulated depreciation of fixed assets written off	41
Amortisation charge (Notes 15;16;17)	(14)
Cost at 31.12.2019	**87**
Accumulated amortisation at 31.12.2019	**(69)**
Carrying amount 31.12.2019	**18**

NOTE 9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

thousand €	**31.12.2019**	**Change 2019**	**31.12.2018**
Non-current assets			
Listed securities - Equity securities - cost as at	410	0	410
Revaluation	(13)	(25)	12
Fair value as at	**397**	**(25)**	**422**

Financial assets at fair value through profit or loss (i.e. Trigon Property Development shares) have been revaluated to reflect fair value based on last price as at 31.12.2019 and as 31.12.2018 as shown on Nasdaq Tallinn Stock Exchange.

NOTE 10 BORROWINGS AND FINANCIAL LEASE

INFORMATION REGARDING BORROWINGS AS AT:

thousand € Current borrowings	Interest rate	**31.12.2019**	**31.12.2018**
Current portion of long-term bank loan (Note 3)	6 month EURIBOR+4.55%	4,090	294
Current portion of long-term financial lease	6 month EURIBOR+ margin (2,19-2,49%)	97	0
Short term loan from related parties	5%	20	0
Bank overdrafts (Note 3)	5%	340	368
Total		**4,547**	**662**
Non-current borrowings			
Current portion of long-term bank loan (Note 3)	6 month EURIBOR+4.55%	0	4,102
Non-current financial lease	6 month EURIBOR+ margin (2,19-2,49%)	92	
Total		**92**	**4,102**
Total borrowings		**4,639**	**4,763**

In 2019, repayments of lease obligations in the amount of € 96 thousand and interest on lease obligations of € 5 thousand were made.

INFORMATION REGARDING MOVEMENT OF BORROWINGS (TABLE SHOWING **CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES**):

Changes in liabilities arising from financing activities *thousand €*	**31.12.2018**	**Cash flows**	**Non-monetary settlements**	**Interest accrued**	**Interest paid**	**Other**	**31.12.2019**
Current portion of long-term bank loan	294	(306)	0	196	(196)	4,102	4,090
Current portion of short-term financial lease	0	(96)	193	5	(5)	0	97
Short term loan from related parties	0	20	0	0	0	0	20
Bank overdrafts	368	(28)	0	20	(20)	0	340
Non-current bank loans	4,102	0	0	0	0	(4,102)	0
Non-current financial lease	0	0	8	0	0	85	92
Total liabilities from financing activities	**4,763**	**(409)**	**200**	**221**	**(221)**	**85**	**4,639**

Changes in liabilities arising from financing activities *thousand €*	**31.12.2017**	**Cash flows**	**Non-monetary settlements**	**Interest accrued**	**Interest paid**	**Other**	**31.12.2018**
Current portion of long-term bank loan	220	(246)	0	209	(209)	321	294
Current portion of short-term financial lease	0	0	0	0	0	0	0
Short term loan from related parties	0	0	0	0	0	0	0
Bank overdrafts	231	137	0	18	(18)	0	368
Factoring	143	(143)	0	13	(13)	0	0
Non-current bank loans	4,422	0	0	0	0	(321)	4,102
Non-current financial lease	0	0	0	0	0	0	0
Total liabilities from financing activities	**5,016**	**(252)**	**0**	**241**	**(241)**	**0**	**4,763**

In 2019 Nordic Fibreboard OÜ Ltd received short-term loan from related parties Stetind OÜ in amount € 304 thousand, with interest rate of 5% p.a., of which € 284 thousand were repaid in 2019. As at 31.12.2019, the short-term loan from related parties were € 20 thousand, see also Note 25.

Un-discounted future cash flows of loan payments are provided in section (B) of Clause 3.1 of Note 3. The borrowings of the Group have been secured as follows:

- commercial pledge in the total amount of € 2.0 million;
- mortgage with collateral claims in the total amount of € 15.06 million.

Until June 2020 the loan agreements contain covenants whereby the debt to EBITDA ratio of the group on a 12-month basis may be up to 5, the DSCR must be maintained at least 1.4 at all times and the annual capital expenditures are capped at 300 thousand €. Waiver was obtained from lender in respect of breaching the financial covenants as at 31.12.2018.

From April 2017 the loan agreement was changed to annual amortisation schedule of 20 years with monthly payback obligation by the lender. In December 2017, amendment to the previous agreement was made, that as of February 2018 the loan amortisation schedule was reduced to 15 years and from July 2018 the loan amortisation schedule was reduced to 12 years and from August 2019 the loan amortisation schedule was reduced to 10 years.

Information regarding financial risks arising from borrowings is disclosed in Note 3. Information regarding the carrying amounts of assets pledged as collateral for bank loans is disclosed in Notes 5, 6, 7 and 8.

thousand €	
In the statement of cash flows:	
Increase financial lease	286
Finance lease payments	(96)
Loan repayment	(306)
Loans received from related parties	304
Repayment of loans received from related parties	(284)
Change in overdraft payments	(28)
Total	**(124)**
In the statement of financial position	
Borrowings as at 31.12.2018	4 763
Borrowings as at 31.12.2019	4 639
Change	**(124)**

NOTE 11 PAYABLES AND REPAYMENTS

thousand €	**31.12.2019**	**31.12.2018**
Trade payables	2,226	1,768
Payables to employees	163	223
incl. accrued holiday pay reserve	36	53
Tax liabilities	162	257
incl. social security and unemployment insurance	101	145
personal income tax	42	51
contribution to mandatory funded pension	4	6
value added tax	5	45
other taxes	10	9
Prepayments received	82	147
Other payables	32	23
TOTAL	**2,665**	**2,418**

NOTE 12 PROVISIONS

thousand €	
Balance at 31.12.2017	**213**
incl. current portion of provision	13
incl. non-current portion of provision	200
Movements 2018:	
Use of provision	(12)
Interest cost (Note 21)	6
Increase of reserve	25
Balance at 31.12.2018	**225**
incl. current portion of provision	15
incl. non-current portion of provision	210
Movements 2019:	
Use of provision	(22)
Interest cost (Note 21)	7
Decrease of reserve	(10)
Balance at 31.12.2019	**199**
incl. current portion of provision	20
incl. non-current portion of provision	179

Provisions are made in relation to the compensations for loss of working capacity of former employees after work accidents. The total amount of the provision has been estimated considering the number of persons receiving the compensation, extent of their disability, their former level of salary, level of pension payments and estimations of the remaining period of payments. In 2019 the provision reserve decreased by € 10 thousand due to the death of one such former employee.

NOTE 13 EQUITY

	Nominal value	**Number of shares**	**Share capital**
	€	pcs	*thousand €*
Balance at 31.12.2019	0.60	4,499,061	2,699
Balance at 31.12.2018	0.60	4,499,061	2,699

The share capital of Nordic Fibreboard AS totalled 2,699,436.60 euros that were made up of 4,499,061 shares with the nominal value of 0.60 euros each. The maximum share capital outlined in the Articles of Association is 10,797,744 euros. Each ordinary share grants its owner one vote in the General Meeting of Shareholders and the right to receive dividends.

No dividends were paid to shareholders during 2019 and 2018.

As at 31.12.2019. the Group had 430 shareholders (31.12.2018: 445 shareholders) of which with more than 5% ownership interest were:

- Pärnu Holdings OÜ (previous name with Trigon Wood OÜ) with 2,682,192 shares or 59.62% (31.12.2018: 59.62%)

- Gamma Holding Investment OÜ with 362,581 shares or 8.06% (31.12.2018: 7.69%)

The number of Nordic Fibreboard AS shares owned by the members of the Management Board and Supervisory Board of Nordic Fibreboard AS was as follows:

- Joakim Johan Helenius 20,000 shares (31.12.2018: 20.000 shares)
- Jan Peter Ingman 0 shares (31.12.2018: 0 shares)
- Trond Brekke 0 shares (31.12.2018: 0 shares)
- Torfinn Losvik 0 shares (31.12.2018: 0 shares)
- Sakari Wallin 0 shares (31.12.2018: 0 shares)

Both Joakim Johan Helenius and Torfinn Losvik have indirect ownership through parent company OÜ Trigon Wood. Torfinn Losvik owns shares through Stetind OÜ in the amount of 44.206 shares (2018 11.980 shares).

As of 31.12.2018 Gregory Devine Grace had a share option agreement with the total amount of 33,333 share options. The share options where valid until 31.12.2018 with strike price of € 1.10 per share. Since the Strike price was higher compared to the market price the option agreement was not used, thus the option reserve was released and accounted in retained earnings.

As of 31.12.2019 Torfinn Losvik has a share option agreement with up to maximum 300,000 share options, such share option agreement was signed 11 October 2017. The agreement stipulates as follow:

- Torfinn Losvik shall be entitled to use the issued option starting from the 37th (thirty-seventh) calendar month after issue of the option. He shall lose the right to use the share option if he leaves from the management board of Nordic Fibreboard AS upon own initiative prior to the thirty-seventh calendar month after the issue of the option or if his board member contract is terminated upon the initiative of the supervisory board within 12 months after the issue of the option. He shall have the right to use the share option to the extent of 1/3 if his board member contract is terminated within 13-24 months after the issue of the option and to the extent of 2/3 if his or her board member contract is terminated within 25-36 months after the issue of the option.
- Torfinn Losvik shall not have the right to transfer the share options issued thereto.
- Up to 300 000 (three hundred thousand) shares of Nordic Fibreboard AS shall be emitted to fulfil the conditions of the share option.
- The price of one share option is 0.506 EUR (calculated as the average closing price of the Nordic Fibreboard shares for the last 60 trading days before the announcement of given AGM on 12.04.2017).
- The final term of the share programme is 31.12.2020. The specific schedule of the share programme and the procedure for sale shall be determined by the supervisory board.
- The pre-emptive right of shareholders to subscribe to new shares emitted to fulfil the conditions of the share option shall be precluded.

Based on calculation in 2017, Nordic Fibreboard share historical volatility was 85% over past 4 years (2014-2017), the management has evaluated value of the call option of the option agreement to be of 77% compared to agreed strike price. As a result, a monthly reserve of € 3 thousand is accounted for the next 36 months starting from November 2017.

CONTINGENT INCOME TAX LIABILITY

Pursuant to the Commercial Code, it is possible to pay out dividends from the parent company's adjusted unconsolidated equity. As at 31. December 2019 and 31 December 2018, the adjusted unconsolidated retained earnings of the Company were negative, therefore as at the balance sheet date there were no dividends to distribute.

The maximum potential income tax liability is calculated under the assumption that the distributable net dividends and the amount of the income tax expense on dividends cannot exceed the distributable retained earnings as at the balance sheet date. As at 31.12.2019 the adjusted unconsolidated retained earnings of the Company were negative, therefore as at the balance sheet date there were no dividends to distribute.

NOTE 14 EARNINGS PER SHARE

	31.12.2019	31.12.2018
Net profi loss (in thousands of euros)	(1,398)	(891)
Weighted average number of shares (units)	4,499	4,499
Basic earnings per share	(0.31)	(0.20)
Weighted average number of shares used for calculating the diluted earnings per shares (units)	4,630	4,630
Diluted earnings per share	(0.30)	(0.19)
Book value of share	0.34	0.64
Price/earnings ratio (P/E)	(1.32)	(1.81)
Last price of the share of Nordic Fibreboard AS on Tallinn Stock Exchange at 31.12.2019, 31.12.2018.	0.41	0.36
Weighted average number of shares used as the denominator (units)		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	4,499	4,499
Adjustments for calculation of diluted earnings per share:		
Share options (2017 program)	131	131
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	4,630	4,630

Diluted earnings (loss) per share is calculated based on the net profit (loss) and the number of shares plus contingent shares corresponding with the Group`s option program started from 2015. Nordic Fibreboard share price on average has been lower than the exercise price of options granted to Gregory Devine Grace. The share options where valid until 31.12.2018 with strike price of € 1.10. Since the strike price was higher compared to the market price the option agreement was not used, thus the option reserve was released and accounted in retained earnings.

The share of Nordic Fibreboard AS has been listed on Tallinn Stock Exchange starting from 25.09.2007.

NOTE 15 COST OF GOODS SOLD

thousand €	2019	2018
Raw materials and main materials	4,435	3,847
Electricity and heat	3,216	2,888
Labour expenses (Note 18)	1,833	1,619
Depreciation (Note 6;7)	591	556
Purchased goods	809	1 272
Change in balances of finished goods and work in progress	353	(103)
Other expenses	302	401*
TOTAL	**11,538**	**10,480**

* 2018 includes other operating expenses from provision reserves increase by € 25 thousand.

NOTE 16 DISTRIBUTION COSTS

thousand €	2019	2018
Transportation expenses	995	973
Labour expenses (Note 18)	327	359
Operating Lease	132	169
Commission fees	61	39
Marketing expense	57	112
Depreciation (Note 6;7)	1	1
Other expenses	123	245
TOTAL	**1,698**	**1,898**

NOTE 17 ADMINISTRATIVE AND GENERAL EXPENSES

thousand €	2019	2018
Labour expenses (Note 18)	348	346
Purchased services	136	67
Office supplies	7	1
Operating Lease	2	3
Depreciation (Note 6;7)	59	1
Other expenses	107	80
TOTAL	**658**	**498**

NOTE 18 LABOUR EXPENSES

thousand €	2019	2018
Wages and salaries	1,910	1,760
Social security and unemployment insurance	597	561
Accrued holiday pay provision	1	2
Fringe benefits paid to employees	31	37
TOTAL	**2,539**	**2,361**

pwc
Initialled for identification purposes only
Initials I.S. Date 30.06.2020

NOTE 19 OTHER OPERATING INCOME

thousand €	**2019**	**2018**
Compensation from insurance	22	0
Other operating income	329*	13
TOTAL	**351**	**14**

* 2019 includes other operating income from revaluation of investment property € 327 thousand.

NOTE 20 OTHER OPERATING EXPENSES

thousand €	**2019**	**2018**
Contract fees	0	51
Sales bonuses	38	20
Reclamations	6	5
Commission, factoring fees	1	2
Membership fees	4	2
Insurance	5	1
Doubtful receivables	1	0
Penalties paid	75	7
Loss from sales of fixed assets	2	0
Other costs	0	1
TOTAL	**134**	**89**

NOTE 21 FINANCIAL INCOME AND EXPENSES

thousand €	**2019**	**2018**
Financial income:		
Other financial income	19*	22*
TOTAL	**19**	**22**

**Other financial income includes revaluation of TPD shares*

Financial cost	**2019**	**2018**
Interest expenses	210	216
including interest expenses related to provisions (Note 12)	7	7
Other finance cost	593**	27*
TOTAL	**803**	**243**

**Other financial expenses for 2018 12M includes revaluation of TPD shares*
****Other financial expenses for 2019 12M is the result of a sale of a subsidiary.*

NOTE 22 INCOME TAX EXPENSE

thousand €	**2019**	**2018**
Income tax expenses *	0	2
Total	**0**	**2**

* Income tax expenses include for 2018 Suomen Tuulileijona income tax.

NOTE 23 SEGMENTS

Operating segments have been determined based on the reports reviewed by the Management Board that are used to make strategic decision. The Management Board considers the business based on the types of products and services as follows:

- Fibreboard manufacturing and sale (Nordic Fibreboard Ltd OÜ and Suomen Tuulileijona Oy) - manufacture general construction boards based on soft wood fibre boards and interior finishing boards in Pärnu and Püssi factories and wholesale of those boards.
- Furniture manufacturing and sale (Skano Furniture Factory OÜ) - the production and wholesale of household furniture in the factory located in Pärnu.*
- Furniture retail sale (Skano Furniture OÜ, SIA Skano and UAB Skano LT) - retail sales of furniture in Estonia, Latvia, Lithuania.
- Real Estate Management.

* *Discontinued operations, the subsidiary was sold on 05.09.2019.*

The Management Board assesses the performance of operating segments based on operating profit and EBITDA as a primary measure. As a secondary measure, the Management Board also reviews net revenue.

All amounts provided to the Management Board are measured in a manner consistent with that of the financial statements. Inter-segment sales are carried out at arm's length.

SEGMENT INFORMATION FOR OPERATING SEGMENTS:

2019 thousand €	**Fibreboard manufacturing and wholesale**	**Real Estate Management**	**Furni-ture retail sale**	**Group's general expenses and eliminations**	**CONTINUED SEGMENTS TOTAL**	**Discontinued operations (furniture manufacturing and wholesale)**	**SEGMENTS TOTAL**
Revenue from external customers	11,745	77	1,511	0	**13,333**	1,215	**14,548**
Inter-segment revenue	0	34	4	(38)	**0**	0	**0**
Operating profit/-loss	(540)	294	(202)	104	**(344)**	(253)	**(597)**
Amortisation/depreciation (Notes 6; 7)*	591	58	2	0	**651**	78	**729**
Segment assets	8,058	992	75	(80)	**9,045**	0	**9,045**
Non-current assets of the segment (Note 6;7)*	5,865	951	0	(67)	**6,749**	0	**6,749**
Segment liabilities	6,899	27	509	69	**7,503**	0	**7,503**
Additions to non-current assets (Note 6;7)*	400	347	0	0	**747**	0	**747**
Interest expenses (Note 20)	204	0	0	6	**210**	17	**227**

2018 thousand €	Fibreboard manufacturing and wholesale	Real Estate Management	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL	Discontinued operations (furniture manufacturing and wholesale	SEGMENTS TOTAL
Revenue from external customers	11,004	0	1,524	0	**12,528**	2,270	**14 797**
Inter-segment revenue	4	0	12	(15)	**(0)**	0	**(0)**
Operating profit/-loss	(277)	0	(106)	253	**(130)**	(506)	**(636)**
Amortisation /depreciation (Notes 6; 7)*	556	0	2	0	**558**	172	**730**
Segment assets	8,307	0	418	(437)	**8,288**	2,019	**10,307**
Non-current assets of the segment (Note 6;7)*	5,391	0	0	0	**5,391**	832	**6,223**
Segment liabilities	6,406	0	690	(644)	**6,452**	954	**7,406**
Additions to non-current assets (Note 6;7)*	22	0	3	0	**25**	10	**35**
Interest expenses (Note 20)	214	0	0	3	**216**	34	**250**

** Property, plant and equipment of the segment*

Eliminations comprise unrealised profits on inventories arising from inter-segment transactions.

BUSINESS SEGMENT SALES BY THE GEOGRAPHICAL LOCATION OF CUSTOMERS:

thousand €	2019					
	Fibreboard manufacturing and wholesale	Real estate management	Retail	TOTAL	Discontinued operations (furniture manufacturing and wholesale)	SEGMENTS TOTAL
European Union	8,656	77	1,511	**10,244**	637	**10,881**
Russia	1,545	0	0	**1,545**	458	**2,003**
Asia	544	0	0	**544**	0	**544**
Africa	523	0	0	**523**	0	**523**
Other	245	0	0	**245**	48	**293**
Middle East	232	0	0	**232**	72	**304**
TOTAL	**11,745**	**77**	**1,511**	**13,333**	**1,215**	**14,548**

thousand €	2018					
	Fibreboard manufacturing and wholesale	**Real estate management**	**Retail**	**TOTAL**	**Discontinued operations (furniture manufacturing and wholesale)**	**SEGMENTS TOTAL**
European Union	8,296	0	1,524	**9,820**	897	**10,716**
Russia	1,531	0	0	**1,531**	1,217	**2,748**
Asia	294	0	0	**294**	0	**294**
Africa	168	0	0	**168**	0	**168**
Other	404	0	0	**404**	99	**503**
Middle East	312	0	0	**312**	57	**369**
TOTAL	**11,004**	**0**	**1,524**	**12,528**	**2,270**	**14,797**

Revenue is generated from sales of own production and goods purchased for resale. Majority of the Group's assets are located in Estonia (in 2019: 100% and in 2018: 99%).

NOTE 24 RELATED PARTIES

The following parties are considered to be related parties:

- Parent company Pärnu Holdings OÜ and owners of the parent company;
- Other entities in the same consolidation group;
- Members of the Management, the Management Board and the Supervisory Board of Nordic Fibreboard AS and their close relatives;
- Entities under the control of the members of the Management Board and Supervisory Board;
- Individuals with significant ownership unless these individuals lack the opportunity to exert significant influence over the business decisions of the Group.

As of 31 December 2019, the largest shareholder of Pärnu Holdings OÜ and the entities with significant influence over the Group are: AS Trigon Capital (45.18%) and Stetind OÜ (46.99%). The owner of Stetind OÜ is Torfinn Losvik and the owner of AS Trigon Capital is Joakim Helenius.

Benefits (incl. tax expenses) include payments of parent and subsidiary company Management Board and Supervisory Board fees paid within the period and resignation compensations for previous Management Board and Supervisory Board members:

thousand €	**2019**	**2018**
Membership fees (Note 17)	130	140
Resignation compensation (Note 17)	0	0
Social tax	43	46
Total	**173**	**187**

The member of the Management Board of Nordic Fibreboard AS will receive severance pay to three months' remuneration according to the contract. No payments were made to members of Supervisory Board.

In 2019 short term benefits in the amount of € 130 thousand were paid to members of the Management Board of all consolidated group companies (2018: € 140 thousand). No short-term benefits for Supervisory Board members neither during 2019 nor 2018. Pursuant to the contracts concluded, as at 31.12.2019, the members of the Management Board are entitled upon termination of management board member agreements by the initiative of Supervisory Board to receive severance pay amounting to three-month remuneration.

In 2017, share option program was established for management. Share options reserve in the amount of € 38 thousand was recorded in 2019 (2018: € 37 thousand). For additional information see Note 14.

Nordic Fibreboard AS has purchased mainly lease and other services from related parties. Transactions with related parties are based on market terms.

thousand €	**2019**	**2018**
Purchased services	17	16
Total	**17**	**16**

Balances with related parties as of 31.12.2019 were € 0 and 31.12.2018 were € 0 thousand from purchased services. In 2019 Group received short-term loan from related parties Stetind OÜ in amount € 304 thousand, with interest rate of 5% p.a., of which € 284 thousand were repaid in 2019. As at 31.12.2019, the short-term loan from related parties were € 20 thousand. In 2018, the Group received short-term loans from Trigon Capital AS and Stetind OÜ in total amount € 120 thousand, which was repaid in same year. See also Note 10.

thousand €	**31.12.2019**	**31.12.2018**
Purchased services	0	1
Short-term loan	20	0
Short-term loan interest	0	0
Total	**20**	**1**

NOTE 25 CONTINGENT LIABILITIES

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and upon establishing errors, may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

NOTE 26 STATEMENT OF PROFIT OR LOSS OF DISCONTINUED OPERATIONS

Based on the resolution of the supervisory board, Nordic Fibreboard AS sold its fully owned furniture manufacturing and wholesale subsidiary Skano Furniture Factory OÜ to Wood Export OÜ. The purchase price for buying 100% of the share capital of Skano Furniture Factory OÜ is € 100,000. However, after adjustments between the sale price and the liabilities of Skano Furniture Factory OÜ. No monetary payment was made by the buyer. There are no related between members of Nordic Fibreboard AS supervisory board and management board. Wood Export for a many years has been a supplier to Skano Furniture Factory OÜ.

Based on the resolution of supervisory board of Nordic Fibreboard AS, Skano Furniture Factory OÜ has with 30 August 2019 transaction transferred its 100% ownership of Skano Furniture OÜ to Nordic Fibreboard AS. The transfer was done without any payment taking place and has no effect on the financial performance of Nordic Fibreboard AS and its subsidiaries. Prior to the sale, Skano Furniture Factory OÜ bank loan, overdraft facilities and all obligations related to the company`s ex-workers disability claims transferred to Nordic Fibreboard AS in agreement with buyer. The sale of Skano Furniture OÜ is not a transaction with connected persons and any members of Nordic Fibreboard AS supervisory board and management board are not otherwise personally interested in the transaction.

The following table presents the financial results of Skano Furniture Factory OÜ for the first 8 months of 2019 up to the sale of the subsidiary and the financial results for the 12 months of 2018 as comparative data.

€ thousand	**2019 (8 months)**	**2018 (12 months)**
Revenue	**1,215**	**3,006**
Cost of goods sold	1,350	3,021
Gross profit	**(134)**	**(15)**
Distribution costs	70	55
Administrative expenses	82	134
Other operating income	38	1
Other operating expenses	4	136
Operating loss	**(253)**	**(340)**
Loss from subsidiaries	0	(166)
Finance income	0	8
Finance costs	18	34
LOSS BEFORE INCOME TAX	(271)	(532)
Corporate income tax	0	0
NET LOSS FOR THE PERIOD	**(271)**	**(532)**

Summarised statement of Financial Position	**05.09.2019**	**31.12.2018**
Current assets	721	1 180
Non-currents assets	96	839
Current liabilities	288	505
Non-current liabilities	0	449
Total net assets	**530**	**1 065**

NOTE 27 GOING CONCERN OF THE GROUP AND EVENTS AFTER BALANCE SHEET DATE

The Group's negative financial performance in 2019 and in previous years has led the Group facing the following difficulties:

a) the Group's lender, Swedbank AS, loan facility was in March 2020 only extended for a 3-month period until 30 June 2020;

b) the Group's working capital position was negative by 4 936 thousand euros as at the year end 31 December 2019;

c) due to the negative results in Q1 2020, the Group's equity does not meet the commercial code minimum requirements as of 31 March 2020.

Additionally, late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact gained momentum. While this is still an uncertain situation at the time of issuing these consolidated financial statements, it became evident in March 2020 that there will be negative impact on the Group.

Consequently, there is material uncertainty about the Group's ability to continue as a going concern and the Group may be unable to continue realising its assets and discharging its liabilities in the normal course of business.

The impact from the COVID-19 pandemic resulted in substantial loss of orders for the fibreboards being produced in the Group's factory in Püssi, north east Estonia. The Püssi factory specialise in producing thinner fibreboards, sold mainly to customers in southern Europe, Middle East and Asia. Thus, the Group decided to temporarily close the Püssi factory, which ended its operations in March 2020. The Püssi factory output represented about 40% of the Group's sales of fibreboard business segment, and employed 34 people. The Group managed to transfer some of the orders from the Püssi factory to its Pärnu factory, which enabled it to start an additional shift in Pärnu, and also relocated 4 of its Püssi staff to Pärnu. This additional shift in Pärnu, who commenced in April 2020, is enabling the Group to increase its output from the Pärnu factory and the actual loss of revenue compared to April 2019 has been 28%, significantly lower than the direct impact of 40% stated above. With the closure of Püssi factory, management has assessed after the post balance sheet date the fair value of property, plant and equipment of Püssi factory is at the minimum 2.5 million euros, while it's carrying amount is 3.9 million euros. However, management considers that the best use is to reopen the factory and the value in use in this case should be higher.

Swedbank AS, the Group's lender, decided in March 2020 to extend the Group's loan agreements with carrying value as at 31 December 2019 in amount 4,430 thousand euros until 30 June 2020. Swedbank also gave exemption to the Group for its monthly principal loan repayments for the period 31 March 2020 to 30 June 2020, such exemption being granted when the Group received cancellation in March 2020 of some customers orders due to the customers negative economic environment caused by the corona virus pandemic. However, after March 2020 the Group has not received any further substantial negative impact on its order book and the performance of the Group has improved. Based on the current discussions with Swedbank AS, management of the Group has signed an agreement with Swedbank AS for extending its loan agreements for further 3 months until 30 September 2020. At the same time, management has worked and will continue to work to extend the loan agreements during the next 3-month period for a longer term. In addition to improving the performance of the Group to profitable, management considers obtaining a guarantee from Rural Development Foundation as one of the key factors for negotiating a long-term extension with the bank. Currently, management considers the Group already fulfils the criteria to obtain the guarantee from Rural Development Foundation and hence, secures a long-term financing and improves liquidity position latest by end of 2020.

Due to the Group's negative working capital as at the year end in amount 4 936 thousand euros, management is paying especial attention to enable the Group to pay its invoices and working closely with key suppliers so to ensure continuity in securing the Group's operational efficiency. The Group has close contacts with its main suppliers, and has organised payment plans for the invoices overdue. In addition, the cash flows are monitored on a weekly basis at least one month ahead and management has compiled a 12-month cash flow forecast (May 2020 until April 2021).

Based on the forecast, management is in opinion that the negative working capital and difficult liquidity situation will improve with the next 12 months. For the cash flow forecast, management has made the following key assumptions:

- Sales to remain stable at April level and Pärnu factory is working near full capacity for the next 12-month period. Some of the Püssi factory customers' orders are being produced in Pärnu.
- Input costs per produced m^3 in Pärnu factory to stay at current levels of January to April average, except woodchip which is expected to remain at April level as the woodchip prices have decreased over the last months.
- Due to operating near full capacity, and experiencing lower woodchip prices this year, which is the main input for the production, the forecasted 2020 gross margin and EBITDA margin of Pärnu factory compared to 2019 should increase from 18.6% to 26.0% and 0.6% to 8.9% respectively. The first 4-month actual gross margin and EBITDA margin of Pärnu factory has been 24.6% and 7.6% respectively.
- Group's other business segments, Pärnu Riverside Development and parent company, generate marginal losses and negative cash flow.
- Punctual payments from our customers, which together with the improved profitability will support repayments of overdue invoices in excess of running payables.
- Bank loan principal repayments do not occur at least until end of Q3 2020 and after that the principal repayments will be made according to 15 year amortisation schedule.

The May 2020 results were significantly better than forecasted, with the actual EBITDA being 140 thousand euros instead of the forecasted 78 thousand euros. In addition, the June actual revenue has been in accordance with the forecasts made by management as well as the order book for July support the continuing performance recovery of the Group.

Due to the negative results in Q1 2020, the Group's equity does not meet the commercial code minimum requirements as of 31 March 2020. Management proposed in the Extraordinary General Meeting, that took place on 26th June 2020, to decrease the nominal share value from EUR 0.6 to EUR 0.06, in which case the equity is in compliance with the minimum requirements in commercial code. This decision was approved at the Extraordinary General Meeting. If there are adverse developments over the next 12 month period, management plans to dispose of its Pärnu riverside residential development property project for which detail planning should be ready by September/October 2020. This could significantly improve the Group's cash flow and net working capital position.

The COVID-19 pandemic is still affecting the economy of the countries where the Group is selling its fibreboards, and due to the extraordinary and unpredictable effect of this pandemic, management finds it difficult to foresee the future demand situation. However, we do take comfort from the fact that there has been no further cancellation of orders in April, May and June, so the near term outlook is looking stable. Management has made a 12-month forecast for the performance of the Group, which shows the Group being able to generate net profit going forward. The key assumptions used by management while performing the forecast were as stated above for the liquidity key assumption section.

Based on the performance of the Group with one operating factory in April and May and with the cash flow and financial performance forecasts made for the next 12 month period, management is in opinion that the Group is a going concern.

NOTE 28 SUPPLEMENTARY DISCLOSURES ON THE GROUP'S PARENT

The financial information on the parent is included in the separate primary financial statements (pages 69 to 72), the disclosure of which in the notes to the consolidated financial statements is required by the Estonian Accounting Act. The separate financial statements of the parent have been prepared using the same accounting policies as for the consolidated financial statements, except for measurement of investment in subsidiaries, which are stated at cost (less any impairment losses).

STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

€ thousand	**31.12.2019**	**31.12.2018**
Cash and cash equivalents	0	1
Receivables and prepayments	16	128
Total current assets	**16**	**129**
Other shares and issues	1,246	3,005
Property, plant and equipment	1	0
Intangible assets	1	0
Total non-current assets	**1,248**	**3,005**
TOTAL ASSETS	**1,264**	**3,134**
Borrowings	335	0
Payables and prepayments	31	1
Short-term provisions	17	0
Total current liabilities	**383**	**1**
Long-term provisions	151	0
Total non-current liabilities	**151**	**0**
Total liabilities	**534**	**1**
Share capital (at nominal value)	2,699	2,699
Share premium	364	364
Statutory reserve capital	288	288
Other reserves	85	44
Retained earnings (loss)	(2,706)	(262)
Total equity	**730**	**3,133**
TOTAL LIABILITIES AND EQUITY	**1,264**	**3,134**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE PARENT COMPANY

€ thousand	**2019**	**2018**
Revenue	**5**	**13**
Cost of goods sold	5	13
Includes sales to subsidiares	*5*	*13*
Gross profit	**0**	**0**
Administrative expenses	8	13
Other operating income	2	0
Other operating expenses	218	4
Operating loss	**(224)**	**(17)**
Finance income	3	4
Finance costs	2,222	1 462
LOSS BEFORE INCOME TAX	(2,443)	(1,475)
Corporate income tax		
NET LOSS FOR THE FINANCIAL YEAR	**(2,443)**	**(1,475)**
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR	**(2,443)**	**(1,475)**

CASH FLOW STATEMENT OF THE PARENT COMPANY

€ thousand	**2019**	**2018**
Cash flows from operating activities		
Operating profit (loss)	**(224)**	**(17)**
Adjustments:		
Non-monetary transactions: reserve for share option	0	37
Loss from disposal of available-for-sale financial assets	0	2
Change in trade and other receivables	328	66
Change in trade and other payables	31	2
Cash generated from operations	**478**	**90**
Interest payments	0	(4)
Net cash generated from operating activities	**478**	**86**
Cash flows from investing activities		
Interest received	3	4
Purchase of property, plant and equipment and intangible assets	(2)	0
Loans to related parties	(219)	(48)
Repayment of loans by related parties	179	10
Disposal of available for sale financial assets	0	180
Net cash used in investing activities	**(39)**	**146**
Cash flows from financing activities		
Loan received	276	0
Loan repayment	(7)	0
Interest payments	(6)	0
Loan refinancing	(426)	0
Change in overdraft	66	(231)
Net cash (used in)/from financing activities	**(439)**	**(231)**
NET CHANGE IN CASH	**(1)**	**1**
OPENING BALANCE OF CASH	**1**	**0**
CLOSING BALANCE OF CASH	**0**	**1**

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

€ thousand	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total
Adjusted uncosidated equity at 31.12.2017	**2,699**	**364**	**288**	**9**	**744**	**4 104**
Share options 2018	0	0	0	35	2	**37**
Other changes	0	0	0	0	0	**0**
Net loss for 2018	*0*	*0*	*0*	*0*	*(1,475)*	***(1,475)***
Other comprehensive income for 2018	*0*	*0*	*0*	*0*	*0*	***0***
Total comprehensive loss for 2018	0	0	0	0	(1,475)	**(1,475)**
Balance at 31.12.2018	**2,699**	**364**	**288**	**44**	**(262)**	**3,133**
Carrying amount of investment under control and significant influence					(3,005)	(3,005)
Value of investment under control and significant influence under equity method					2,997	**2,997**
Adjusted unconsolidated equity at 31.12.2018	**2,699**	**364**	**288**	**44**	**(270)**	**3,125**
Share options 2019	0	0	0	40	0	**40**
Net loss for 2019	*0*	*0*	*0*	*0*	*(2,443)*	***(2,443)***
Other comprehensive income for 2019	*0*	*0*	*0*	*0*	*0*	***0***
Total comprehensive loss for 2019	0	0	0	0	(2,443)	**(2,443)**
Balance at 31.12.2019	**2,699**	**364**	**288**	**84**	**(2,704)**	**730**
Carrying amount of investment under control and significant influence					(1,245)	**(1,245)**
Value of investment under control and significant influence under equity method					1,245	**1,245**
Adjusted unconsolidated equity at 31.12.2019	**2,699**	**364**	**288**	**84**	**(2,704)**	**730**

Adjusted unconsolidated equity is the maximum amount that can be distributed to shareholders' according to Estonian legislation.

pwc Initialled for identification purposes only
Initials I.S. Date 30.06.2020

Independent auditor's report

To the Shareholders of Nordic Fibreboard AS (previous business name Skano Group AS)

Report on the audit of the consolidated financial statements

Our qualified opinion

In our opinion, except for the effect of the matter described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nordic Fibreboard AS ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 30 June 2020.

What we have audited
The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for qualified opinion

As at 31 December 2019 the consolidated balance sheet includes property, plant and equipment in the carrying amount of 5 212 thousand euros. The management performed impairment test using the discounted cash flows as described in Note 4. We formed a different view from management in respect of the discounted cash flow forecasts. Consequently, we are in opinion that the recoverable amount of property, plant and equipment is lower than it's carrying value and an impairment loss in the amount of approximately 170 thousand euros should have been recorded as of 31 December 2019. Therefore, total consolidated assets and equity as at 31 December 2019 are overstated, the consolidated net loss for the year 2019 is understated by approximately 170 thousand euros and the negative Earnings per share is understated by approximately 0.04 euros. Furthermore, the impairment loss of the property, plant and equipment as at 31 December 2019 impacts the parent company primary financial statements, disclosed in Note 28, as the investment into subsidiaries is overstated by the impairment amount of approximately 170 thousand euros. Therefore, in the parent company standalone balance sheet total assets and equity are overstated and standalone net loss for the year 2019 is understated by approximately 170 thousand euros.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59[1] of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2019 are disclosed in the management report.

Material uncertainty relating to going concern

We draw attention to note 27 to the financial statements, which discusses the Group's ability to continue as a going concern. The Group's forecast and projections assume that the Group's Püssi factory will remain closed for the foreseeable future and the Group will continue operating only with Pärnu factory. This has impacted and is expected to impact the Group's performance and cash flows significantly for the next 12 months. The Group expects to further improve the utilisation of Pärnu factory and to take advantage of other cost saving measures, resulting in improved performance and cash flows. In addition, the Group is dependent on the financial institution for extending the Group's borrowings throughout the forecasted period, while aiming to secure additional guarantees to the financial institution from government support programmes. The Covid-19 pandemic and closure of Püssi factory is potentially significantly impacting the impairment amount of Püssi factory property, plant and equipment, up to 1.4 million euros post balance sheet date, as disclosed by management in Note 27 of the financial statements.

In the event that COVID-19 restrictions have an extended impact to the main trade partners of the Group and/or government support program guarantees will be unable to obtain, then the Group would need to seek alternative financing to the arrangements currently in place.

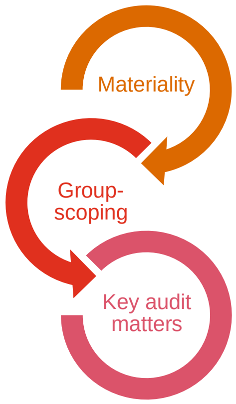
These conditions, along with the other matters explained in note 27 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Our audit approach

Overview



Overall group audit materiality is EUR 133 thousand, which represents approximately 1% of the Group's total revenue.

We tailored our audit scope based on the risk and size of entities within the Group and performed either a full scope audit or specific audit procedures over material profit or loss and balance sheet items.

- Impairment assessment for property, plant and equipment in fibreboard production entity.
- Use of going concern assumption by management when preparing the consolidated financial statements of the Group.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group audit materiality	EUR 133 thousand
How we determined it	Approximately 1% of total revenue
Rationale for the materiality benchmark applied	We have applied this benchmark, as in our view total revenues is a key performance indicator that determines the Group's value and is monitored by management, investors and other stakeholders.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Except for the matters described in the Material uncertainty related to going concern section and Basis for qualified opinion section, we have determined that there are no other key audit matters to communicate in our report.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of a number of entities that are further disclosed in Note 1 of financial statements. Based on the size and risk characteristics, we performed a full scope audit of the financial information for Nordic Fibreboard AS and Nordic Fibreboard Ltd OÜ.

In addition, specific audit procedures, including analytical procedures, were performed in respect of the disposed subsidiary Skano Furniture Factory OÜ until the disposal date and in respect of sales revenue for the Group's retail sales subsidiary in Estonia. At the Group level, we audited the consolidation process and performed procedures to assess that the audits of the Group entities and of specified account balances covered all material items in the Group's consolidated financial statements.

Other information

The Management Board is responsible for the other information. The other information comprises introduction, Management report, Management Board's confirmations, Proposal for covering of loss, Signatures of the Management Board and Supervisory Board to the 2019 Annual Report and Revenue of the parent company by EMTAK classificators (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

As described in the Basis for qualified opinion section above, in our opinion the property, plant and equipment is overstated. Therefore, the other information is materially misstated with respect to this matter.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of Nordic Fibreboard AS for the financial year ended 31 December 2007. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Nordic Fibreboard AS of 13 years.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Verner Uibo
Auditor's certificate no.568

30 June 2020
Tallinn, Estonia

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

PROPOSAL FOR COVERING OF LOSS

	€ thousand
Retained earnings at 31.12.2018	**(496)**
Net loss in 2019	(1,398)
Statutory capital reserve	288
Issue premium	364
Retained earnings / (accumulated losses) at 31.12.2019	**(1,242)**

Torfinn Losvik

Chairman of the Management Board

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2019 ANNUAL REPORT

The Management Board has prepared the Company's Annual Report for 2019. The Annual Report (pages 1 to 82) consists of the management report, financial statements, auditor's report and proposal for covering of loss. The Supervisory Board has reviewed the Annual Report prepared by the Management Board and approved it for presentation at the General Meeting of Shareholders

Chairman of the Management board Torfinn Losvik

30.06.2020. a.

Chairman of the Supervisory Board Joakim Johan Helenius

Member of the Supervisory Board Trond Bernhard Brekke

Member of the Supervisory Board Jan Peter Ingman

Member of the Supervisory Board Sakari Wallin

REVENUE OF THE PARENT COMPANY BY EMTAK CLASSIFICATORS

€ thousand	**2019**	**2018**
96099 Other services	**5**	**13**